



NOTTINGHAM BUSINESS SCHOOL

DOCUMENT 1

Entrepreneurs, Venture Capital and Finance:

Comparing and contrasting the development of Business Angel
Networks (BAN) in the United Kingdom and in Portugal

Student:

Ricardo Nuno Teixeira de Gouveia

N0165583

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Note about Documents 1–4

Documents 1–4 are edited versions of the originals submitted on the dates detailed on the frontispiece of each Document.

1. Introduction

There have been a growing number of studies about entrepreneurship in Europe as was mentioned by Hisrich and Drnovsek (2002: 172–222). The same trend can be observed in the USA, as referenced by Aldrich (2000). This phenomenon is a consequence of the intersection of two revolutions: entrepreneurial and free market, as argued by Sexton and Landström (2000: xxi). The number of studies is just one consequence: the growing number of journals, the additional college courses on entrepreneurship, the increasing number of conferences and seminars devoted to debate and discuss entrepreneurship are among the other characteristics of this flourishing sector, Hisrich and Drnovsek (2002: 172–222).

Business angels, together with banks, are one source of financial resources and advice to entrepreneurs, when developing new ventures. Unlike banks, business angels provide equity, for a limited period. In fact, an entrepreneur when considering developing a new project, often seeks business angel financial support and advice. The bank, on the other hand, provides access to debt.

There is extensive research produced on the United Kingdom about business angels, who are wealthy individuals interested in financing entrepreneurs, in developing new business ventures. Business angels' networks are associations of business angels.

The aim of this research is, while studying entrepreneurship, to analyse, compare and contrast the development of “business angels” networks in Portugal and in Madeira Islands. These are Portuguese territories, discovered in 1418, and located 600 km west of Morocco.

Professors Mason and Harrison (1996; 2000), among others, have produced extensive research on the “business angels” market in the United Kingdom. From these studies, it is possible to draw a profile of the business angels market in the United Kingdom. My objective is, throughout interviews and questionnaires to build up a similar profile of “business angels” or informal venture capital in Portugal, and subsequently, to produce an extensive comparison between these two realities.

The expected contributions from this study are as follows:

- I. Understand better the reality of entrepreneurship in Madeira, Portugal and the United Kingdom;

2. Contribute to better public policies;
3. Foster the interest for entrepreneurship studies in Madeira;
4. Promote the development of a financial market devoted to entrepreneurs;
5. Understand the reality for business angels both in the United Kingdom and in Portugal.

Throughout the next section – Subject and Objectives – I present details of the main objective of this research, and the “road map” I have designed accordingly. There is a brief characterization of Madeira Islands, and indirectly of Portugal, where part of the research will take place.

The next step is to present a brief literature review, detailing the most important results of the work done so far, followed by a definition of the underlying rationale for the research method that shall be adopted on this project. Finally, Documents 3, 4, and 5, and ethical issues will be addressed too. It is important to stress that this paper, Document 1, as well as Documents 2, 3, and 4 are not definitive; changes will be made to them in the future, culminating in Document 5, the thesis itself, and Document 6, which is the journal that gives a personal rendition of the research “journey”.

2. Subject and Objectives

2.1. Why study entrepreneurs?

Entrepreneurship is “the willingness to take the risks involved in starting and managing a business”.¹

Entrepreneurship is a multifaceted phenomenon. In spite of that, theorists have tried to define the object of this particular activity: creation of new enterprises or using a more meaningful definition, to explain and facilitate the role of new enterprises in furthering economic progress (Low and Macmillan 1988: 141). Entrepreneurship can also be analysed using an alternative perspective: detection, exploration of opportunities (Shane and Venkataraman 2000: 218), or to me, more specifically: to examine how, by whom, and with what effects opportunities to create future goods and services are created, evaluated and exploited (Shane and Venkataraman 2000: 218). Gartner (2001), who revised the Shane and Venkataraman article using Low and Macmillan’s specifications, has suggested alternatively, that entrepreneurship is about organizing (Davidson et al. 2001: 6).

There is another line of research, which has focused on behavioral aspects of entrepreneurs, while others have concentrated on the cognitive aspects of the decision-making process (Ucbasaran et al. 2001: 58).

The seminal work produced by Low and Macmillan (1998: 139–61) helped to develop new research areas. These researchers focused on company creation. Later, Shane and Venkataraman, (2000: 217–26) suggested an alternative approach: to concentrate on the detection and exploration of opportunities. Others followed these two works, which summarised the new findings according to the methodology proposed earlier, by Low and Macmillan (1988: 139–61).

There is an increasing willingness among researchers to understand entrepreneurship, which is a wealth-generation phenomenon, which increases employment and promotes innovation. On the other hand, entrepreneurship is of crucial importance in promoting local development. Portugal and Madeira Islands on the other hand, need to explore its own entrepreneurial capacity, in

¹ See <http://www.tunerlearning.com/leftslbbaLUeconglos.htm> (2007) [Accessed: 3 February 2007].

order to benefit, in terms of growth, innovation employment. That is why the focus on entrepreneurship is so relevant to me.

2.2. How do entrepreneurs finance projects?

We have seen that entrepreneurship has been, in the last thirty years, an increasingly visible phenomenon; a complex and dynamic reality, that if correctly understood, may have a positive impact on the economy of a region and of a country.

As was mentioned before, entrepreneurship is the practice of starting new organizations, particularly new businesses. This process requires financial resources, which can be obtained either internally or externally, and in this case at a cost.

To understand how entrepreneurs take their own financial decisions, one has to consider the type of institutions present in the market, and the type of offers in terms of products and services rendered in the place (Donckels 2000). There are at least three types of institutions:

- a) Commercial or high street banks (Tucker and Lean 2003);
- b) Venture capital funds (Manigart and Sapienza 2000);
- c) Informal venture capital structures (Sørheim 2005: 189) and (Mason and Harrison 2000).

On the demand side, it is important to acknowledge, that the need for financial resources is not constant throughout the project's development period. At the beginning of a project, financial resources are often provided by family and close friends of the entrepreneur.

Soon after this stage, informal venture capital structures, known also as business angels, make approaches. Business angels are not a homogeneous group (Sullivan and Miller 1996: 33), and tend to show high opacity when it comes to assessing the outcome of their investments (Mason and Harrison 2002a: 232), but are important in the early stages of the project (Mason and Harrison 2000). Formal venture capital funds seem to appear in a later phase of the project (Fenn and Liang 1998). In some projects however, one might expect to see the confluence of more than one financial institution. (Ibbotson and Moran 2005; Fenn and Liang 1998; Sullivan and Miller 1996).

Banks are an important source of funding (debt) for entrepreneurs and small and medium sized entrepreneurships (SMEs). Apparently, friends and family provide funds at the early stages of the projects, followed by business angels. Venture capital funds tend to come across, in the later stages of the project's development.

In Madeira Islands, there are two privately owned "capital de risco" (venture capital funds) – Sociedade de Desenvolvimento Empresarial da Madeira (SDEM) and Madeira Capital – and a publicly owned one, which is due to start operating this year. Until recently, most of the required financial resources, for development of a new business were supplied by banks. The market somehow understood that there was a need for a new offer to come up: equity. Until now there are, as mentioned before, two privately owned venture capital funds.

Finally, it would be important to assess the role and impact of the public policies in developing entrepreneurship in the Autonomous Region of Madeira. There is a clear reference to entrepreneurship, in the Government's development plan (2007–2013):

"The promotion of entrepreneurship appears as one of the instrumental objectives of the innovation policy and for the implementation of the knowledge society, its is throughout the creation of new businesses and innovative projects that there is a materialization of Madeira's potential for innovation and competitiveness, and therefore for its future development." (Portugal 2006: 11)

It is clear from this particular statement, that Madeira's government will strongly support entrepreneurship. This support is understood to be strategic because it promotes competitiveness and local economic development. A practical consequence of this statement is the support given by local public authorities for the development of a publicly owned venture capital fund.

2.3. Research Objectives

As was discussed previously, entrepreneurship is a widespread phenomenon, which on the one hand has generated wealth and employment and, on the other, has promoted innovation and local development.

The development of a business project requires financial resources: debt and equity. There has been a local tradition to rely on banks for the supply of financial resources to SMEs. The new

risk-assessment techniques have required banks to deny or decline further involvement in high-leverage businesses structures.²

Instead, the advice banks have been giving to entrepreneurs is for them to consider a much more adequate financial structure. In this context, there are two privately owned venture capital funds operating in Madeira Islands. Another one promoted by local government, is about to start operating later this year. Meanwhile, the Portuguese Business Angels Association is about to begin operating in Madeira.

Local government has formally expressed that its commitment towards entrepreneurship is of a strategic nature. Bearing this in mind, this study is concerned with arriving at a substantial appreciation of the relevant Portuguese and international contexts. Two related objectives are:

- To gain a better understanding of the reality of entrepreneurship in Madeira, Portugal, and the United Kingdom;
- To understand the reality for business angels both in the United Kingdom and in Portugal.

2.4. Research Questions

In order to achieve the research objectives, the questions that need to be asked include the following:

- How important is business entrepreneurship to the development of the economic environment in Portugal in general, and in Madeira in particular?
- How important is the role of informal business capital for UK business entrepreneurship?
- How likely is it to succeed if the UK's approach and experience regarding business entrepreneurship is adopted by the Portuguese economic environment?
- How likely is it to succeed if the UK business angels' informal venture capital approach is adopted by the Portuguese business environment?

² Financial leverage (or gearing) is the use of debt to increase the expected return on equity, it is measured by the ratio of debt to debt plus equity (Brealey and Myers 1988: G5).

2.5. The significance of the current study

There is a debate over the future Portuguese development model. Until recently, Portugal based its own economic development on low wages; a strategy that is no longer seen as sustainable. On the other hand, it has been argued, innovation must be the future driving force for economic development to drive different companies and sectors to adapt to this new reality. Moreover, unemployment, which has steadily risen in recent years, must also be addressed.

This research is important because entrepreneurship has a major role to play in promoting economic development, in fostering innovation, and, finally, in addressing unemployment.

2.6. What is unique about the current research?

To the best of my knowledge, never before has the impact of entrepreneurship on Portugal's economic development been addressed. Moreover, the same situation happens to exist in Madeira.

It is important to assess the role "business angels" have played in the United Kingdom and how this experience might successfully be used in Madeira as well as in Portugal.

2.7. What are the likely benefits of the current research?

Portugal has experienced low GDP growth in recent years. In fact, it has shown a divergent trend when compared to the EU average of GDP growth. On the other hand, unemployment has been steadily rising. All of this has been happening, amid a debate over the new Portuguese economy-development model. In fact, there is a consensus that the old paradigm, based on a low-skilled workforce and low wages, ought to be replaced by the new paradigm based on: entrepreneurship, a highly skilled work force, innovation, and exports. The current research, while contributing to this debate, may be useful to the banking industry, because it will explore a completely new market that has been receiving growing attention from the financial community. On the other hand, the findings could be useful for policy makers in order to adjust public policies on entrepreneurship and innovation.

2.8. Contextual Analysis: Madeira³

Madeira Islands are a Portuguese Autonomous Region located in the Atlantic Ocean, located 600 miles southwest of the Portuguese mainland. The Region was “discovered” by the Portuguese in 1418. In 2004, Madeira Islands had 244,286 inhabitants, of which 33.6 percent was below twenty-five years of age (Portugal 2006).

AGE (years)	Population 1995	Percentage 1995	Population 2000	Percentage 2000	Population 2004	Percentage 2004
0–14	53,145	21.4%	45,532	19.0%	44,768	18.3%
15–24	45,229	17.5%	40,013	16.7%	37,294	15.3%
25–64	120,516	48.6%	122,857	51.2%	129,995	53.2%
Over 65	31,032	12.5%	31,383	13.1%	32,229	13.2%
TOTAL	247,992	100%	239,785	100%	244,286	100%

Table 1: Portuguese population age range and percentages of population, based on Portugal 2006.

Source: based on information in Portugal (2006).

In 2004, the workforce was 113,477; of which 9.2 percent was employed in the primary sector, while in the same period, 25.6 percent was employed in the secondary sector. The tertiary sector was responsible for the employment of the rest of the workforce, that is to say 65.2 percent. The unemployment rate did not exceed 5 percent in the same year. (Portugal: 2006).

Employment by Sector	1995	1995	2000	2000	2004	2004
Primary sector	13 684	13,2%	15 886	14,7%	10 397	9,2%
Secondary Sector	32 096	30,9%	34 655	32,1%	29 043	25,6%
Tertiary Sector	58 081	55,9%	57 290	53,1%	74 037	65,2%
Total	103 861	100%	107 831	100%	113 477	100%

Table 2: Employment by sector. Source: Direcção Regional de Estatística (DRE) (Regional Statistic Department).

³ The full report, *PDES 2007–2013* is available at https://infoeuropa.euroid.pt/opac/?func=direct&doc_number=000036452&format=999 [accessed 12 May 2013].

In 2003, Gross Value Added (GVA)⁴ of the primary sector represented of 2.9 percent of the total; GVA of the entire secondary sector represented 15.7 percent; and GVA of the tertiary sector was of 81.5 percent. (Portugal: 2006).

Gross Value Added			
	1995	2000	2003
Primary sector			
	4,0	2,7	2,9
Secondary Sector			
	18,0	20,1	15,7
Tertiary Sector			
	78,0	77,3	81,5

Table 3: GVA. Source: Direcção Regional de Estatística (DRE) (Regional Statistic Department).

Finally, the local Gross Domestic Product (GDP) per capita in 2003 represented 82 percent of the average of European Union (EU–10), and 90 percent when compared to the average (EU–25).

It is important to stress that, at the same time, Madeira’s GDP per capita index of 121 compared favorably with the national index of 100. (Portugal: 2006).

⁴ Gross Value Added (GVA) is the difference between output and intermediate consumption for any given sector/industry, that is, the difference between the value of goods and services produced and the cost of raw materials and other inputs used up in production. See http://www.statistics.gov.uk/about/glossary/economic_terms.asp. [Accessed: 3 February 2007].

	1995	2000	2003
GDP– Gross Domestic Product*	1 908	3 055	3 651
GDP– PPC (Purchasing Power Parity)**	2 637	4 130	4 662
Index GDP per capita in terms of PPC (Portugal=100)	95	112.6	121
Index GDP per capita in terms of PPC (EU 15=100)	62.7	79.2	82.4
Index GDP per capita in terms of PPC (EU 25=100)	69.2	86.0	90

Table 4: Unit: 10⁶ Euros. Source: Instituto Nacional de Estatística (INE) (National Statistical Institute).

*The value of all final goods and services produced in a country in one year. GDP can be measured by adding up all of the country's income from the economy (wages, interest, profits – or expenditures – consumption, investment, government purchases) and net exports (exports minus imports). See <http://youthink.worldbank.org/glosary.php> [accessed: 3 February 2007]. ** A method to measure the relative purchasing power of different countries' currencies over the same types of goods and services. Because goods and services may cost more in one country than in another, PPP allows for a more accurate comparison of standards of living across countries. PPP estimates use price comparisons of comparable products, but since not all items can be matched exactly across countries and time, the estimates are not always robust. See <http://youthink.worldbank.org/glosarry.php> [accessed 3 February 2007].

3. Literature Review

3.1. Introduction

Entrepreneurs need financial resources to develop their own ventures. On the supply side, there are at least three types of organizations:

- Banks;
- Formal venture capital funds;
- Informal venture capital networks;

These three different institutions supply financial resources, that is, debt and equity.

3.2. Small and medium sized enterprises (SMEs) and Growth

This section broadly analyses the growth factors present in small and medium size enterprises (SMEs). When analyzing small and medium size entrepreneurships (SMEs) one has to bear in mind the heterogeneity of this particular segment. In fact, there are internal, as well as external circumstances that influence the growth of SMEs. Amongst internal circumstances are financial structure, leadership, age, and social group.

External factors influence growth as well, these include macroeconomic trends, the role banks play as well as of other stakeholders. (Donckels 2000).

3.3. Banks and Small and Medium Sized Enterprises (SMEs)

SMEs are a heterogenic group, which need financial resources. Banks are the major source of debt for SMEs in the UK (Mason and Harrison 1996: 5). The losses resulting from the recession, which occurred in the 1990s in the UK, triggered a new paradigm in the lending decision-making processes. On one hand, the criteria for lending decisions were modified and on the other, risk assessment techniques were improved. Banks also decided to develop a counselling process to offer entrepreneurs advice on searching for equity partners (Mason and Harrison 1996: 12).

In spite of banks being the major source of funding for SMEs, the fact remains that financial constraints are the most important factor preventing growth (Beck and Demirgüç-Kunt 2006: 2941), this is even more evident in disadvantaged entrepreneurs involved in New Entrepreneurs

Scholarships (NES), which Rouse and Jayawama (2006: 398–99) make reference to. Apparently, from among the author's mentioned above relations between banks and SMEs is poor. However, Ibbotson and Moran present different findings (2005: 561–62).

As is known, banks and entrepreneurs are involved in the macroeconomic context, and work within a specific legal frame. The more efficient the legal system is, and the more developed financial intermediaries are, the more developed companies tend to be, as was suggested by Beck et al. (2006: 3013). On the other hand, Berger and Udell (2006: 2961) argued that public policies have had an impact on the structure of the financial system, and indirectly, on the technologic infrastructure of the lending processes developed by banks that supported it. These researchers, while suggesting that the literature has “not accounted for or controlled for the presence of alternative technologies” presented a new approach, by postulating the existence of several lending types: financial statements that are credit based; credit scoring; asset-based credit; fixed asset-based lending; factoring, leasing; relational credit and trade-finance, each having its own autonomous lending decision-making technology.

Finally, public policies can be used to help resolve the debt gap existing for SMEs, by using, business credit unions, direct funding, mutual guarantee societies, and better information provision regarding sources of debt, as pointed out by Tucker and Lean (2003: 59–60).

Banks are the most important providers of financial resources to SMEs, which claim, on the other hand, that financial constraints are amongst the most important factors preventing growth. If both statements are correct, there is some space, apparently, for equity providers. Public policies have an impact at various levels, but may have a direct influence to resolve the debt gap existing for SMEs.

Risk assessment is a matter of crucial importance to all banks. There are still differences on how banks do make their own assessments (Fletcher, 1985: 51). Some of the differences are rooted in tradition (Fletcher, 1995:52). Among the most important criteria within the credit decision-making process are financial information, gearing and security. This information is compatible with that provided by Deakins and Hussain (1994: 29–30). These authors, while arguing that there was evidence of a small number of decisive variables in the credit decision-making process, mentioned that there was disturbing evidence of credit proposals within the same bank, but in different branches, having had different decisions.

It is clear that leverage (or gearing) is among the most important variables in the risk-assessment process. Esperança et al. (2003: 78–79) concluded from their extensive research conducted in Portugal that the financial structure of small companies there were a function of: (i) the company's dimension, the bigger the better for long-term loans; (ii) the capacity to offer collateral, due to the lack of credible financial information, or put in a different way, to the opacity.

As was mentioned before, Berger and Udell (2006: 2961) postulated the existence of several different types of credit, each one with its own technological platforms, independent from the others. It may be inferred, therefore, that the banks with better credit-decision platforms will experience a competitive advantage. Research has shown that the bigger banks tend to have better technological platforms. It was argued by Berger and Udell (2006: 2962) that in markets where there are foreign financial institutions and the public owned financial institutions have limited capacity to operate, there is more credit available for SMEs. On the other hand, the better the lending infrastructure the more credit is available for SMEs (Berger and Udell, 2006: 2962). Risk assessment is an increasingly sophisticated area, where financial information has had an increasing importance. This trend has helped entrepreneurs to become more aware of financial issues.

In conclusion, it could be said that banks provide most of the debt to SMEs, in spite of the fact that after the recession that hit the UK in the early 1990s, banks continued to be the most important source of financing to SMEs. It is also clear that both economic conditions and the legal framework have a direct impact on the capacity of the financial sector to provide funds to SMEs.

In addition to banks, other institutions provide funds to entrepreneurs and SMEs, but unlike banks, they do not provide debt; instead, they are able to provide equity, under certain conditions and for a limited period. I will analyse two types of equity providers: venture capital funds and informal venture capitalists or “business angels”.

3.4. Venture Capital Funds

Banks are undoubtedly a major source of the debt for SMEs. However, there are other types of financial providers to SMEs. Amongst these are venture capital funds and informal venture capital, also known as “business angels”. Venture capital funds pool investor's money, acting as a vehicle; funds are then used to invest in third parties, acquiring equity.

Therefore, a venture capitalist is a person involved in the project.⁵ Venture capital funds have a long-term disposition to invest cash. According to the statistics, 50 percent of deals such as these involve less than one million Euros. The organization uses contacts, networks and business experience to succeed. Venture capitalists remain involved with the business for an average of at least five years (Manigart and Sapienz 2000).

This has been an American phenomenon. The genesis of the industry could be traced as far as 1958, when the Small Business Investment Act was passed in 1958, allowing the licensing of small business investment companies (SBIC).

Venture capital rose in an explosive way in the early 1980s. In Europe, the rise was also evident; however, in recent years, syndication has shown a downward trend, whereas internationalization has risen in the same period.

The roles of these financial intermediaries are the screening, contacting and monitoring of financial decisions, according to (Manigart and Sapienza (2000). Another researcher added the additional role of risk sharing (Reid 1996).

Tyebjee and Bruno (1984: 1065), proposed analysis of business venture activity by dividing the process into five different phases: deal organization, screening, evaluation, structuring and post investment.

According to some researchers the most important investment criteria for venture capitalists has been the quality and character of the entrepreneur. Other researchers argue that the most relevant factor was the growth potential of the business (Zacharakis and Meyer 1995). Tyebjee and Bruno (1984) stressed the importance of the business plan, while suggesting that there are at least four items, which are relevant in the decision-making process: marketing factors, competitive factors, quality of the management, risk exposure. Other researchers such as Hormozi et al. (2002: 755–63), have also stressed the importance of a consistent business plan.

During the post-investment period, the active part of the venture capital fund has shown huge variations. There are some very active venture capital funds, while others, appear to be passive.

⁵ See http://en.wikipedia.org/wiki/venture_capital [accessed 2 February 2007].

Highly involved venture capital funds tend to show a higher return when compared with those venture capital funds that are not so active and professional (Manigart and Sapienza 2000).

Venture capital funds are a very important source of equity to SMEs and for entrepreneurs, but they are not the only source of funding available. The next section will be devoted to another financial structure specialised in supplying financial resources to SMEs and entrepreneurs. Venture capital funds tend to support entrepreneurs in the later stages of project development. However, it is known from reports that informal venture capitalists or business angels support entrepreneurs from the early beginnings of a new business venture.

3.5. Informal Venture Capital

Evidence suggests that venture capital funds only finance a small number of projects (Mason and Harrison 1996: 7). Therefore, informal venture capital is an important source of support to SMEs (Mason and Harrison 1996: 7). This information is compatible with that provided by Fenn and Liang (1988: 1077). The support available from informal venture capitalists may take different forms: technical support; management expertise and access to bank loans, as was mentioned by Sørheim (2005: 189) and by Mason and Harrison (1996: 8).

Business angels are opaque investors, as was argued by Mason and Harrison. (2002b: 284–284). The majority of these investors do not belong to any informal venture capital networks. On the other hand, informal venture capital networks have been working on a sub-optimal level (Mason and Harrison 2002: 284). These researchers have argued in favour of the development of a new generation of informal venture capital networks that are much more proactive and professional. In fact, informal venture capitalists have had very strict investment criteria, which have excluded most of the investment projects presented (Mason and Harrison 2002b: 283).

Individual investors tend to be middle-aged males, affluent, and educated professionals as Kuusisto (1999: 95) pointed out. This information is compatible with that provided by the conclusions of research produced in Singapore, where 90 percent of the investors were found to be aged between forty and forty-nine years, male, and have had some experience in business. (Hindle and Lee 2002: 169–81). Sørheim's findings (2005: 178–91) are compatible with this. There is very little research on the results produced by these investments.

However, according to Mason and Harrison (2002a: 233) the existing numbers show considerable variables. About 50 percent of all the investments made by business angels

produce losses. However, about 10 percent of overall investments generate high returns. On the other hand, investors tend to remain in the business for about four years on average. Management Buy Outs (MBOs) tend to occur when the expected returns are high (IRR of 50 percent and above).

However, there have been a number of problems associated with this research. It has been difficult to define the market, both in national terms as well as internationally. It has been difficult to identify the most important players. Moreover, it has been difficult to develop a typology for business angels (Manigart and Sapienza 2000). There have been several attempts however (Sullivan and Miller 1996: 25–25).

There have been studies trying to use both the agency theory and the signal theory concepts to look into the informal venture capital markets. Finally, another line of reasoning was added, by trying to assess the impact of fiscal policies and subsidies on the informal venture capital markets (Mason and Harrison: 2000).

The informal venture capital market is still ill defined. Apparently, they have a bigger market share than formal venture capital funds. Business angels, while having business experience, provide extensive support to entrepreneurs. Informal venture capitals, have very strict investment criteria, and tend to join at the early stages of the project's development.

A brief characterization of the different types of the finance-resource providers serving entrepreneurs has been outlined above, followed by a brief examination of the relationship between banks, as the major source of debt, and SMEs and entrepreneurs. These explorations were followed by an examination of two types of equity providers to SMEs and entrepreneurs: venture capital funds and informal venture capital, also known as business angels. The following chapter will be devoted to analyzing which methodology this research will follow.

4. Methodology and Methods

In attempting to reach my research objectives, I adopt a particular methodological choice. Research methodology is an analysis of how research should or does proceed. Methodology may be thought of as the philosophy of method. Fisher (2004: 33–4) argues that methodology is the study of methods. The research methods, as distinct from methodology, are the actual techniques or procedures used to gather and analyse data related to some research question or hypothesis. Research methods, influenced or shaped by a methodology, provide the reasons for using a particular research recipe (Clough and Nutbrown 2006: 229). Research methodology includes discussion of how philosophical perspectives of the research relate to the method used, and how particular approaches can be related to specific research problems. Some philosophers of science have argued, especially in the social sciences, that subjectivist as well as objectivist approaches might be used. Other authors argue that there are two philosophical traditions: positivism and constructivism. (Easterby-Smith et al. 2006: 28). In this Document, two approaches are considered; positivism and constructivism.

4.1. The Positivistic Approach

Positivism, introduced by Comte, tends to concentrate on tangible aspects and search for general laws (Fisher 2004: 15). From a broader perspective, positivism sees reality as an external entity that can be measured using objective methods (Easterby-Smith et al. 2006: 28). Ontologically it can be presumed that reality is external to the observer. The epistemology of positivism is based on objective methods. The values, perceptions, and attitudes of the observer should not be considered in this process (Easterby-Smith et al. 2006: 28; Fischer 2004: 15).

However, positivism is not the only possible approach, as there are alternatives. Amongst these is constructivism. This may be a powerful perspective for the current research, as in this particular case, there are conflicting positions between business angels and entrepreneurs. In fact, entrepreneurs, on one side, need financial resources to develop their own business, whereas business angels are willing to supply financial resources (equity) under certain conditions, and for a limited period.

4.2. Constructivist Approach

Constructivism deals with how people may make sense of things. (Fisher 2004: 18). Associated to this individual process are the ideas of complexity, relativism and plurality (Fisher 2004: 18). To understand the way entrepreneurs act toward either banks, as debt providers and venture capitalists as equity providers, one has to consider the representation they have of the world, which is a construct of their own minds, but also in relation to other stakeholders.

Using a constructivist approach means trying to understand the complexities involving the relations between entrepreneurs and the providers of financial resources, especially business angels also known as informal venture capitalists. Under this approach the values, perceptions and attitudes of each intervenient are valued.

4.3. Deciding on which approach to follow

One can argue that, in a sense, the constructivist approach is “richer” than the positivistic one. Therefore, the constructivist approach should be selected. However, the positivist approach is very popular among the research considered in the current work. Bearing this in mind, it is tempting to follow a “mixed path”, and to take some elements of both approaches. However, as Fisher (2004: 18) notes, this can be a dangerous road to take.

One might use some positivistic aspects when considering a constructivist approach, but the opposite is not correct, considering the ontological differences existing between these two approaches.

The inclination, therefore, has been to choose a constructivist approach for the current research, using, wherever possible and advisable, some aspects of positivism.

5. Outlines of Documents 3, 4, and 5

5.1. Document 3

In Document 3, the results of the in-depth interviews that will take place with entrepreneurs from Portugal (including Madeira) will be analysed. This will include a sample of approximately twenty-five people. The entrepreneurs will be selected from different economic sectors and will be of different ages as well as educational backgrounds.

Using experience of working for more than twenty years in this particular business environment, I intend selecting a representative sample of Madeira's business community. From the mainland, I will seek support from the Portuguese Business Angels' Association. Recently, I contacted a representative of this Association in Madeira Island who seemed willing to cooperate.

It is expected that the results of these interviews will have an impact on the building up the final draft of the interviewee questionnaire.

5.2. Document 4

I will send questionnaires to more than 100 entrepreneurs operating in Madeira and the Portuguese mainland. Once again, personal business experience will be valuable in order to select a representative sample of local entrepreneurs. For the selection of entrepreneurs living in mainland Portugal, I will approach the newly founded Portuguese Business Angels' Association to ask for their support.

The questionnaire is in the early stages of preparation. A final draft will be completed in due course. The literature review, which is carried out prior to the development of Document 4, is likely to provide clues for building up the final draft of the questionnaire. The results from these questionnaires will be analysed using SPSS techniques.

5.3. Document 5

The analysis of the results provided by Documents 3 and 4, will allow me to extract conclusions on the similarities as well as differences from the Portuguese reality when compared to that prevailing in the United Kingdom. During this process, it may be necessary to clarify some

topics. The clarification process may induce a new round of focused questionnaires and possibly additional interviews may have to be scheduled.

6. Ethics

6.1. Ethical Issues

I intend with this particular research project to understand the position of local entrepreneurs toward informal venture capitalists and to compare these results with those observed in similar researches produced in United Kingdom. I have been working in the biggest privately owned Portuguese bank for the last twenty years. It does not seem difficult to have access to an extensive group of local entrepreneurs and business angels.

I will inform each entrepreneur selected for the interviews about the purpose of this particular research project and of the underlying methodologies. I will assure confidentiality for both written papers as well as in taped interviews.

In all the work, I shall consider prudence, and independence. I will do my best to avoid any kind of “bias”.

6.2 Benefits of the Research

6.2.1. Personal

I will benefit from developing this particular research project, because I will:

1. Develop personal analytical capacities;
2. Deepen my knowledge of entrepreneurial financing decision-making processes;
3. Gain a better understanding of the Portuguese economy, including Madeira's;
4. Possibly detect potential business opportunities.

6.2.2. Professional

The bank, for which I have been working for the past twenty years on the corporate desk, will benefit in the following areas:

1. The researcher, being a member of the bank's staff, will foster his own working performance, by using the new set of analytical frameworks, gained while pursuing the DBA programme;
2. The bank itself, using the papers produced for the DBA, will improve its knowledge of entrepreneurship both in Madeira and in Portugal

6.2.3. Academic

The local university, the youngest Portuguese Public University will also benefit:

1. I could use the current research to promote studies on entrepreneurship in Madeira.

6.2.4. Social

Local Authorities will also benefit:

1. I could use the findings provided by this research to induce some fine-tuning of current public policies, which clearly favour entrepreneurship.

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NOTTINGHAM BUSINESS SCHOOL

DOCUMENT 2

Critical Literature Review and Conceptual Framework:

Comparing and contrasting the development of Business Angel Networks (BAN)
in the United Kingdom and in Portugal

**Document submitted in part fulfillment of the requirements of The Nottingham
Trent University for the DBA degree**

Student:

Ricardo Nuno Teixeira de Gouveia

N0165583

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Note about Documents 1–4

Documents 1–4 are edited versions of the originals submitted on the dates detailed on the frontispiece of each Document.

1. Introduction

Throughout this research, the author's intention is to make a comparative study of two realities: business angels' development processes in the United Kingdom and in Portugal. Business angels are private investors, who participate in new ventures with smart money: a combination of financial resources, advice-giving and sharing their own network of contacts with entrepreneurs. It is consensual that business angels participate in the ventures for a limited period: three to four years on average, according to previous studies (e.g. Lumme and Mason 1996; Hindle and Lee 2002).

Before critically reviewing and evaluating the existing literature on business angels, it is crucial to refer to the fact that the business angels' concept is a pivotal construction lying between entrepreneurship and innovation. Therefore, time and effort is devoted in framing these two realities before exploring in detail the business angels' concept. As mentioned by Harrington "Lyotard describes an increasingly close affinity between technology and wealth, sciences and capital, a world in which legitimation is bound up with performative improvements" (Harrington 2005: 261). There is a confluence of all effort towards profitability which is somehow bounded to the market, the centre of modern life according to Frederic Jameson (Harrington 2005). Harrington in support of this assertion wrote (referring to Jameson), that "he finds a new postmodern affirmation of the market as a vehicle for the popular reception of cultural goods" (Harrington 2005: 266).

A business angel, according to the *Oxford English Dictionary (OED)* is "a person who invests private capital in a small business, usually in return for a proportion of the company equity." The business angel as entrepreneur, involved in entrepreneurship caught the attention of researchers a long time ago. Low and Macmillan (1998) defined entrepreneurship as the study of the creation of new ventures and consequently of job and wealth generations. This article proposed several new research lines which had a great impact on academia (Ucbasaran et al. 2001; Davidson et al. 2001; Shane and Venkataraman 2000). To the author, it is difficult to conceive entrepreneurship without innovation. Researchers suggested that entrepreneurship without innovation is imitation, "whereas innovation – a higher degree of entrepreneurship – also leads to restructuring and revolution" (Davidson et al. 2001: 14). Following Low and Macmillan's article, Shane and Venkataraman's appeared (2000), which defined entrepreneurship as the activities behind detection, identification, and exploitation of a business opportunity. It is clear that the market takes the central role as Lyotard envisaged. In a sense,

business angels are also entrepreneurs: they participate with financial resources, expertise, and contacts, in the development of new ventures. The market may also be pivotal under another approach, in that it considers entrepreneurs and business angels as the intermediaries, helping innovators to reach the market, in the best possible way.

Besides entrepreneurs and business angels, there are innovators. Innovation, according to the *OED*, is an “action of introducing a new product into the market” and is a crucial element to understanding the business angels’ reality, as well. Innovation and research management issues have been receiving growing attention by the international research community (*Research Policy* 1999). Several other articles have identified future potential research areas (Day et al. 1994; Wolfe 1994).

The authors suggest that there is a link between entrepreneurs, “one who undertakes an enterprise; one who owns and manages a business; a person who takes the risk of profit and loss” as defined by the *OED*, and innovators and business angels, as all of them tend to be focused on the market.

The focus of this research is to contrast and compare the business angel’s realities in Portugal and in the United Kingdom. In Portugal, this is a new social phenomenon whereas in the United Kingdom it is already an institutionalised reality. In Portugal, there are two different structures: the Associação Portuguesa de Business Angels (APBA) and the Federação de Business Angels (FBA). The former was founded in 2006, the latter in 2007, which federates different business angels clubs around the country. There is a fundamental difference between these two organizations. The FBA represents a number of different business angels’ clubs that have been formed throughout the country since 1980, while the APBA is an association that was formed in 2006, and since then, has tried to expand throughout the country by opening a delegation in Oporto and promoting partnerships with Business Associations.

Following a review of the existing literature on business angels in the United States of America, in the United Kingdom and in Scandinavia, an analysis of the characteristics of business angels will be done. Finally, I will approach the existing business angels markets in the United Kingdom and in Portugal.

All in all, the market discourse as defined by Foucault (Benton and Craib 2001) originated subjects such as: entrepreneurs, business angels, and innovators. All of these groups are keen to get into the market with services, products, or concepts and aim to overcome the performative

criteria as suggested by Lyotard (Harrington 2005). The focus of this Document is on the business angels' reality, within which the terminology for all of these market subjects is embedded.

I will start by discussing both the ontological and the epistemological concepts and the conceptual framework underlying this research project.

2. Conceptual Framework: Foundations

I begin with ontology, followed by a brief note on the epistemological stance. Afterwards I will elaborate on the conceptual framework that underlies this research project.

It is important to detail both the ontological and epistemological position, which should be consistent with each other, in order to produce a consistent conceptual framework.

This broad analysis is necessary to frame the aim of this paper, which is to elaborate on the questions that will be addressed to the interviewees in the questionnaires. In fact, I am expected, in Document 3, to produce a piece of interpretative research about the topic I have been working on. I will conduct several interviews with the most representative personalities of the business angel's activities both in Portugal and in the United Kingdom.

It is important to mention that, in Portugal, there are three types of business angels' structures: clubs, the National Federation and the Portuguese Association. The business angels clubs are the most basic form of business angel organization, linking business angels that are geographically close to each other. Another structure is the National Federation, which congregates the different business angels clubs that have been formed throughout the country. On the other hand, there is the Association of Business Angels, which was founded in 2006, in Lisbon, and has been trying to expand countrywide.

2.1. Ontology

Ontology is “according to Aristotle, the part of philosophy whose aim is the study of the more general properties of the being, apart from the infinity of particularities that qualifies it, shadowing his full nature” (*Dicionário Houaiss* 2005: 5917). The *Oxford Reference Dictionary (ORD)* goes along the same line of reasoning when it states that ontology “is the branch of metaphysics dealing with the nature of being” (1989: 588).

From these two definitions two things become clear: on one side, ontology can be seen as a reflection or a study. Hence, the focus of the work is on the ultimate nature of being. The various definitions of ontology, always mention the being, which according to the *Dicionário Houaiss* is “that of which reality is made” (2005: 7297).

There are several positions regarding the nature of the being. On one side, is the objectivism, to which the reality and its meaning remains outside the individuals' or social actors' experiences. Bryman and Bell mention that "Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors" (2007: 22). On the other end of the spectrum is subjectivism: an ontological position which "believes that something exists only when you experience and give it meaning" (Hatch and Cunliffe 2006: 12). Other authors refer to this ontological position as constructionalism, which according to Bryman and Bell is "an ontological position (often referred to as construtivism) which asserts that social phenomena and their meanings are continually being accomplished by social actors" (2007: 23).

2.2. Epistemology

Epistemology is "the theory of the method or grounds of knowledge" (*ORD: 277*), or is "concerned with knowing how you can know" (Hatch and Cunliffe 2006: 13).

From this perspective, several stances can be taken. On one hand, are the positivist and, on the other hand, rests the "antipositivist or interpretive epistemology" (Hatch and Cunliffe 2006: 13). The positivist epistemology claims that one can discover the reality throughout the scientific behaviour of people, or advocates the "application of the methods of the natural sciences to the study of social reality and beyond" (Bryman and Bell 2007: 16). The interpretative epistemology "assumes that the knowledge can only be created and understood from the point of view of the individuals who live and work in a particular culture or organization" (Hatch and Cunliffe 2006: 13).

2.2.1. Relations between ontology and epistemology

It is clear that the ontological perspective sustained in the research must be consistent with the way in which the research is conducted. Bryman and Bell wrote "ontological assumptions and commitments will feed into the ways in which research questions are formulated and research carried out" (2007: 25).

In the current work, an interpretivist approach is adopted. Under this approach, knowledge is a "justified, true belief" (von Krogh et al. 2000: 6). It can only be "created and understood from the point of view of the individuals who live and work in particular organizations" (Hatch and Cunliffe 2006: 13). This is why it was decided for the current research to interview the leaders

of different business angels' organizations in Portugal: the leader of the Portuguese Association, the heads of the different clubs and the chairman of the National Federation.

2.3. Aims

At the beginning of this journey, the aim of the research was (while examining the ways in which entrepreneurs gain access to the financial resources necessary for the development of their own ventures, in the context of Madeira's Autonomous Region) to detect if there was space for the development of the new privately owned informal venture capital structure.

The two main objectives were: to study entrepreneurial activity, throughout the business angels' organizations and, at the same time, to study the possibility of developing a new business angel organization.

Afterwards, and during the preparation of Document 1, the aim has been slightly changed: to consider a comparative study between the informal business angel reality in Portugal and in the United Kingdom, knowing that the United Kingdom has a much more developed environment.

The research objectives have altered to become the following:

- a) To gain better understanding of the entrepreneurial reality in Madeira, Portugal and in the United Kingdom;
- b) To understand the reality of business angels in the United Kingdom and in Portugal;
- c) To provide guidelines to Portugal and Madeira regarding business entrepreneurship and business angels based on the British experience.

Initially, the research questions were as follows:

- a) What is the most relevant financial product for entrepreneurs?
- b) How do entrepreneurs choose between debt and equity?
- c) What are the most important criteria in choosing a bank?
- d) How do these results compare to those obtained in Poland, Greece, and Romania?

The adjustment in the research objectives had a material impact on the research questions, which had to be changed. The new research questions are the following:

- a) How important is business entrepreneurship to the development of the economic environment in Portugal in general, and in Madeira in particular?
- b) How important is informal business capital to United Kingdom business entrepreneurship?
- c) How likely is it that the United Kingdom's approach and experience regarding business entrepreneurship will be adopted in the Portuguese economic environment?
- d) How likely is it that the United Kingdom's approach to business angel informal venture capital will be adopted in the Portuguese environment?

2.4. Conceptual Framework

The conceptual framework involves the analysis of three different realities: Business angels clubs, the National Association, and the National Federation.

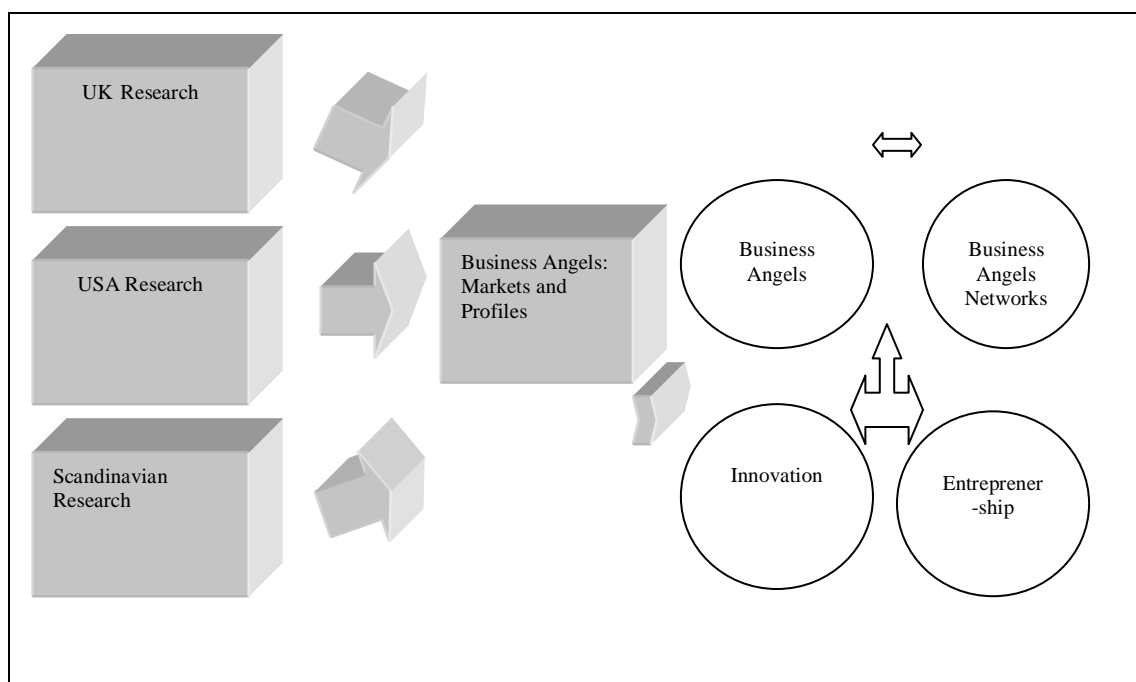


Figure 1: Starting from an analysis of the research produced in different geographic locations. Left: research in the UK, USA and Scandinavia; Right: business angels and networks, innovation and entrepreneurship in the UK and in Portugal. Source: author's own.

From business angels – markets and profiles – the comparative study was begun by considering four different and relevant variables: innovation, entrepreneurship, business angels and business angels' networks. Innovation, which is embodied in entrepreneurship, requires financial

resources and advice, which is provided to business angels directly or indirectly, through business angels' networks.

From the literature review, one might conclude that business angels represent complex phenomena. It is easy to conclude that some countries have a long tradition of business angel investments whereas in other countries, such as Portugal, business angel investments are recent phenomena.

On the other hand, it is possible, to take two different views: On one side, one can analyse business angels as suppliers of funds as well as, on the other hand, as seekers of profitable business opportunities. This brings into the discussion two other relevant concepts: entrepreneurship and innovation, which will be discussed later in this work.

Beginning with the current research available about business angels, I will then interview the most relevant leaders of business angel organizations working in Portugal. I will also attempt to interview the chairman of the European Business Angel Network (EBAN) who is, at the same time, the leader of a well known business angel structure in the United Kingdom, the Greater London Enterprise (GLE). These interviews will be carried out using a semi-structured interview approach.

After completing this stage, analysis of the results of the transcripts of the different interviews will take place, in order to build comparisons with the information provided by business angels in the UK.

3. Entrepreneurship

3.1. Entrepreneurs

An Entrepreneur is defined in the *ORD* as “one who undertakes a commercial enterprise with a change of profit and loss; a contractor acting as an intermediary” (1989: 275). Entrepreneurs use innovation, a concept that will be discussed later in this work, to explore new market opportunities. Paul Burns wrote that owner managers and entrepreneurs are “both born and made” (2007: 51), giving examples of different types of entrepreneurs, and meaning that there is the inherited and the acquired.

Entrepreneurs have been extensively studied in the last decades, and from many different points of view. Pedro Nueno noted that “there is a economic approach superbly articulated by the work of Schumpeter; the psychological approach, in the manner of Chris Argyris; the historical approach, following Alfred Chandler; the psychiatric approach, used by Abraham Zaleznick” (1999: 11).

Historically, entrepreneurs was first mentioned by Richard Cantillon, however “the individuals introduced by Cantillon are not necessarily innovative” (Lumsdaine and Binks 2007: 12). Later, Jean Baptiste addressed the issue, once again. Recently, Schumpeter developed a concept, which is, according to Sarkar (2007), the concept of entrepreneurship most used today, referring to the uses of innovation in a business context (2007: 43). Entrepreneurs can take several forms: Introduction of a new product, development of a new market, development of a new process, acquisitions of new sources of raw material, and the creation of a new enterprise.

After defining entrepreneurs, its historical background and the different approaches that have been used to frame the business angel phenomena, this concept will be analysed to see how it links to entrepreneurship.

3.1.1. Entrepreneurship and Entrepreneurs

The terms have been use in different ways. In a sense, entrepreneurship has to do with the process whereas entrepreneurs are linked with people who undertake a new project. Pedro Nueno pointed out that the word entrepreneur is nowadays “applied to people who have a special kind of knack for detecting opportunities and the ability to mobilise outside resources – resources belonging to others – to exploit these opportunities” (1999: 32–3). Burns goes along a

similar line, writing that “entrepreneurs create value by exploiting some form of change, for example in technology, materials, prices or demographics” (2007: 9).

Sarkar suggests the following definition for entrepreneurship, which “is the process of creation and/or expansion of businesses that are innovative or that were born from detected new business opportunities” (2007: 47). Sarkar opens up new perspectives when he mentions the appearance of new areas, such as intra- and social entrepreneurship, which Burns also mentions (2007: 9). In any case, it is of crucial importance to separate entrepreneurship from other concepts such as: small businesses and family businesses (Pedro Nueno 1999; Sarkar 2007).

Using a different perspective, Lumsdaine and Binks suggested that “Entrepreneurs are people with particular characteristics and traits of behaviour whereas entrepreneurship is the result of what entrepreneurs do and refers to events and their economic impact” (2007: 11).

So far, that process and people are different concepts has been considered. However the process and people do have one thing in common: the market. Both people and processes, in an entrepreneurial environment are focused by the market. Amar Bhidé, suggested, following his research, three types of entrepreneurs: (1) start ups; (2) growing, long-lived companies; (3) large corporations. The first were those individuals trying self employment. The second group is composed of entrepreneurs that have developed different competencies from those who started the company. The third group is that where entrepreneurs begin their own projects within large corporations, where there is no shortage of financial resources, but where there is a lack of flexibility after the initial project launch phase (Lumsdaine and Binks 2007: 17).

Attention will now be focused on what makes entrepreneurs work. What are their motivations? McClelland¹ defined three types of motivation: achievement, power and affiliation. According to his research, entrepreneurs tend to have a great need for achievement, being therefore more apt at detecting and exploring business opportunities.

3.1.2. Entrepreneurship, Innovation and Creativity

According to the *ORD*, creativity is “to be able to create, invention, imagination” (1989: 197). Being creative certainly means being able to produce an invention. Lumsdaine and Binks

¹See the portal featuring David McClelland’s work at http://www.portaldomarketing.com.br/Artigos/Teoria_de_McClelland_Motivacao_e_necessidades.htm [last accessed 12 May 2013]. (Translation from Portuguese to English by Ricardo Gouveia).

continue along the line of reasoning, writing “creativity enables us to make something new and hitherto unimagined” (2007: 19).

As was noted previously, one can see entrepreneurship as a process or, alternatively, as the consequence of the entrepreneur’s activity. On the other hand, entrepreneurs were defined as “by their use of innovation to exploit or create change and opportunity for the purpose of making a profit” (Burns 2007: 56).

Innovation differs from an invention because the first has a commercial link. As Burns notes, “Innovation is more than just that invention and it is not necessarily just the product of research” (2007: 57). On the other hand, “innovation can be seen as the practical application of creativity” (Lumsdaine and Binks 2007: 21).

All in all, creativity, enabling the appearance of something new, which might have a business application and would, therefore, be considered an innovation, might then create a business opportunity to be explored by entrepreneurs.

3.1.3. Research on Entrepreneurship and Entrepreneurs

In the seminal work by Low and Macmillan (1988), they tried for the first time to contribute to the systematization of entrepreneurship research, starting from a definition of entrepreneurship, a decisive discipline, “to explain and facilitate the role of new enterprise in furthering economic progress” (Low and Macmillan 1988: 141).

In order to gain the most from future research, the authors suggested that future researchers consider six different levels of analysis.

The first level has to do with a definition of the researcher’s purpose. In fact, Low and Macmillan proposed their own definition of entrepreneurship, which had already been mentioned before. Later on, other researchers suggested an alternative approach (Shane and Venkataraman 2000). Following purpose, it was important to consider which perspective to adopt. Low and Macmillan mentioned two alternatives: on one hand, the strategic adaptive approach, which “suggests that the key to entrepreneurial success lies in the decisions of the individual entrepreneurs who identify opportunities, develop strategies, assemble resources and take initiatives” (Low and Macmillan 1988: 142). On the other hand, the same authors suggested another alternative, which was the population ecology perspective, and which

according to Low and Macmillan (1998: 144), suggests that “those organizations that are well adapted to their environment will survive, and those that are not will die”.

The third dimension is focus. Low and MacMillan (1988: 146), after mentioning that “early entrepreneurship studies are typically focused on the personality background” proposed three alternatives: psychological theories, socio-cultural, and network approaches. The first are centred on “personality based entrepreneurship research that started with McClelland’s work. The socio cultural approaches have their own foundations on Max Weber’s work. Low and Macmillan suggested that “The best that can be said with confidence is that in some cases entrepreneurship is a response to lack of social mobility throughout other channels” (Low and Macmillan 1988: 149). Finally, there are the network theories, which put “entrepreneurship within a social context” (Low and Macmillan 1988: 150).

Low and MacMillan (1988), suggest another dimension: the level of analysis. Most of the existing research shows a one-dimensional pattern, but the purpose is to consider multi-dimensional research. What are these other dimensions? The authors answered: individual, group, organizational, industrial, and, finally, societal. The latter offered a broader perspective than the former. They stated that multi-dimensional research tended to produce richer conclusions when compared to one-dimensional approaches (Low and Macmillan 1988).

Besides, time was also a relevant variable. Low and Macmillan (1988) argued that most of the published research focused on the start-up entrepreneurship phase, therefore isolating the rest. In the face of these shortcuts, Low and Macmillan suggested that research should introduce a broader time-span, suggesting, “from the point of view of advancing theory, studies that merely document the start up phase are of questionable value” (1988: 153). Finally, there are the research methods. Low and Macmillan mentioned that to surpass the limitations noticed in previous research, it is important to use advanced research techniques such as: regression, multi-variable analysis, and model building (Low and Macmillan 1988).

Considering this important work done by Low and Macmillan (1988), other works followed. Shane and Venkataraman (2000) produced an elaborated piece of research using the Strategic Adaptation Perspective (SAP) proposed by Low and Macmillan. In fact, according to SAP, the key to entrepreneurial success depends primarily upon the entrepreneur’s ability to develop and execute effective strategies (Low and Macmillan 1988: 144). Shane and Venkataraman worked on this concept. The starting point was the proposal of a new definition for entrepreneurship, known to be the “scholarly examination of how, by whom, and with what effects opportunities

to create future products and services are discovered, evaluated, and explored” (Shane and Venkataraman 2000: 218). From this initial concept, Shane and Venkataraman (2000) argued that opportunities do occur either on the product market as well as on the factor market.

Going on with the discovery of new opportunities, Shane and Venkataraman mentioned that it is an ability based on two decisive factors: information corridors and cognitive capabilities. On one side, human beings have a mass of information collected throughout their lives that “influence their ability to recognize particular opportunities” (Shane and Venkataraman 2000: 222). On the other hand, “people must be able to identify new mean-ends relationships that are generated by given change in order to discover entrepreneurial opportunities” (Shane and Venkataraman 2000: 222). Finally, when it comes to the exploitation of those business opportunities, Shane and Venkataraman (2000), suggest that it all depends on the nature of the opportunity, and on personal differences. In fact, not all entrepreneurs would develop the same business opportunity with the same expected value, they reckoned.

Ten years after the publication of Low and Macmillan’s article a balance was made. The first article, written by Davidson, Low and Wright mentioned that there was a progress in the studies (Davidson et al. 2001: 12). There were relevant developments in specific areas. There was a drift from studying psychological aspects of entrepreneurs to considering, alternatively, the behaviourist and cognitive sides. There was a new trend to segment entrepreneurs differently: experienced versus novice, for example. In any case, there is still no consensus about the definition for entrepreneurship. In fact, “the ‘entrepreneurship research’ label itself would likely be doomed to second class status, and as pointed out by Gartner, there is no room for theory as the basis for community if entrepreneurship research remains a potpourri” (Davidson et al. 2001:13). In spite of the progress, there is still a great debate and different opinions as to how to define entrepreneurship as an economic domain, a research dominium, and an academic subject.

Ucbasaran, Westhead and Wright (2001) acknowledged that there had been progresses in the last decade, therefore, there is agreement with conclusions provided by the previous authors. Moreover, they mentioned that great progress existed in behavior, search processes, organizational forms, and environmental issues. These authors argue however that new lines of research are now open (Ucbasaran et al. 2001).

All in all, while one, accepted definition for entrepreneurship does not exist, ten years after the publication of Low and Macmillan’s work, it is important to retain, for the practical purposes of the current research, the two concepts proposed: one by Low and Macmillan and the other by

Shane and Venkataraman. The first suggests that entrepreneurship is the creation of new enterprises, while the latter defend that it has to do with the detection and exploration of new business opportunities.

After this review of the developments in entrepreneurial studies following the work of Low and Macmillan, with new proposals, as demonstrated previously and using a positivistic approach, I will now consider the same analysis for the innovation concept.

From the initial work done by Low and Macmillan and from the research done subsequently, one might conclude by noting how difficult it has been to build up a consensual definition for entrepreneurship.

4. Innovation

4.1. What is innovation?

According to the Oxford Concise Dictionary (*OCD* 1989: 422) to innovate is “to bring in new methods, ideas, etc.; to make changes in”. This is one definition among many. According to David Smith (2006), from the many definitions that have been presented, there is always a link to be found between several concepts: Idea, innovation, inventions and then, market place and commerce. There is however a clear distinction between invention and innovation, since the second involves commerce.

4.2. Types of innovation

There are several types of innovation. David Smith refers to the following: incremental, radical, modular and architectural (1998). The first: incremental is “refines and improves an existing design” (Smith 2006: 29), whereas radical innovation is “much more than improvements in existing designs” (Smith 2006: 29). Modular innovation applies when, under an established concept, new components are designed. Finally, within architectural innovation “the components and associated design concepts remain unchanged but the configuration of the system changes as new linkages are instituted” (Smith 2006: 32). Then we are in the face of an architectural innovation.

While the previous classifications are somehow related to the flow of the innovation, other authors refer the existence of three different types of innovation: in product, in services, and in processes.

4.2.1. Research in Innovation

This section will analyse how research in innovation has evolved in the last twenty years. Afterwards, the envisaged future research trends in the field of innovation will be detailed. Innovation is also important to foster organizational effectiveness and efficiency. This aspect will also be discussed below.

Research Policy is one of the oldest journals devoted to research and innovation themes. It started publishing in 1971. At the beginning, the editors wrote:

“The journal recognized from the outset that much wider issues were involved in decision making from research and development than simple enumeration of expected costs and benefits.” (Research Policy 1999: 911)

In 1999, the journal produced a retrospective edition of all that had been published until then. In spite of the fact that, R & D management and projects evaluation was not the focus of the journal, the fact is that in the last twenty-eight years, almost 500 articles have been published, mainly concerned with innovation in agriculture, industry and services (*Research Policy* 1999: 911). It is interesting that, throughout these years, seven published papers received more than 100 citations, whereas the article with 260 citations was the most cited piece of research. In terms of the range of published articles, it is important to note that:

“Weakly represented or hardly represented at all are papers which deal with policy in one individual country or on individual industry or firms.” (Research Policy 1999: 915).

This retrospective noted that the number of citations had been steadily increasing. The journal did, however, introduce a note of caution by mentioning that citations are a “measure of the impact and not necessarily a measure of the intrinsic value, although the two ways often coincide” (*Research Policy* 1999: 912). Innovation is a research area, which has deservedly received increasing attention from researchers in recent years. According to *Research Policy*, the areas that have expanded most are research management and research policy. The journal also mentions the increasing number of journals devoted to research and development, together with the increase in the number of submissions, which it feels are clear indicators of the increasing interest in these areas (*Research Policy* 1999: 919).

Day, Gold, and Kuczarski (1994) noted that, in the late 1980s, product development processes were concentrated in two major areas: the development and the launch phases (Day et al. 1994). However, a new trend has arisen: the focus on product development processes has been shifting toward the development phase. The authors wrote that the focus is now “on the front end development process” that is to say, that a “thoughtful approach to the generation and screening of ideas that will pay large dividends in the future” (Day et al. 1994: 69). The important thing is screening and ideas, they argued.

Also according to Day et al. (1994) there has been growing evidence to suggest that innovation has been concentrated in the development phase. The motives underlying this refocus of research and innovation on the development phase has to do – according to the authors – with several issues, but two main ones: (1) Japanese competition and (2) increasing domestic competition. Finally, until recently, the development phase was considered a creative issue (Day et al. 1994). Now, this seems to be a management process that, if well managed, can bring a number of new opportunities. According to Day et al. the potential research areas are the following: product development supply chain, Information Technology (IT) developments on product development, and the development of representative schemes, all of which should be a high priority in the product development research community (Day et al. 1994: 15).

The development phase was now considered a management phase. In 1988, George Scott published a report (Scott 1988) where he studied the responses given by managers of companies with technologically advanced products, to the question: “What are the most important problems regarding contemporary Research and Development (R&D) and New Product Development (NPD) problems?” The author wanted to address issues related to “technology management that are critical problems not yet dealt with satisfactorily in companies” (Scott 1988: 235). The study involved managers working in Europe and in the United States of America. Amongst the findings is the fact that managers from both sides of the Atlantic strongly agree that the most important question has to do with technology strategic planning, which seems compatible with the idea sustained by other authors (Day et al. 1994) that the development phase has become a managerial issue rather than a creative stance.

The other line of reasoning has to do with organizations and innovation. That is to say, what is innovative behavior in organizations, and how does it influence in terms of efficiency and effectiveness. Wolfe (1994) addressed this topic, suggesting that there were three different streams of research: diffusion of information, organizational innovativeness, and process theory research.

Diffusion of information studies the existence of different patterns for the innovation diffusion throughout the different adopters. Wolfe argues that these studies tried “to explain or predict rates and patterns of innovation adoptions over time and/ or space” (Wolfe 1994: 407). According to this research, the aim is to identify the most influencing factors responsible for innovation diffusion, and those, according to Wolfe (1994) are: relative advantage, compatibility, complexity, trialability, and observability. On the other hand, there is a concern to define the adopter of these several groups.

This type of research has several limitations (Wolfe 1994) which contributed to the development of new approaches. One of them is organizational innovativeness, which, according to Wolfe, tried to identify the “determinates of the organization’s propensity to innovate” (Wolfe 1994: 408). The limitations of this approach, which relied heavily on regression analysis and surveys, caused the development of a new approach called the process model theory.

This approach - process theory models - sets out to investigate “the nature of the innovation process; how and why innovations emerge, develop, grow, and (perhaps) terminates” (Wolfe 1994: 409). The focus is on the temporal development of the activities related to the development and implementation of an innovation (Wolfe 1994). It is argued that there are two phases in this process: in the first phase, researchers tried to identify different stages during the innovation process, whereas in the second phase, the main aim was “to fully describe the sequences of, and the conditions which determine, innovations processes” (Wolfe 1994: 411).

4.3 Conclusions

The suggestions proposed by Low and Macmillan (1988), which heavily depended on a positivistic approach, were revealed to be unsatisfactory because they did not permit, ten years after they were proposed, the development of a wide consensus over the definition of entrepreneurship. However, some progress was made, according to some researchers (Ucbasaran et al. 2001). For the purpose of the current research, the two definitions of entrepreneurship are very useful: creation of new ventures (Low and Macmillan 1988) and detection and exploitation of new business opportunities (Shane and Venkataraman 2000). These concepts have implied a notion of pro-activity, business analysis, and risk, all of which are present in the work and practices of business angels. Landström (1998) reckoned that business angels should be considered entrepreneurs too.

After all, we cannot conceive business angels without entrepreneurs. But, at the same time, the opposite statement is not true. What about innovation? Innovation has been receiving increasing attention by academics. Besides, there is a trend showing that the focus is moving away from the testing phase to the development phase, which is no longer a creative stance but rather a management process, which can be highly profitable.

All in all, entrepreneurship without innovation, as previously mentioned, is mere imitation. Nevertheless, one cannot conceive business angels without entrepreneurship. In a way one can classify all of these as subjects, in the Foucault sense, as a market discourse.

5. Business Angels

5.1. Construction of a Concept

The existing literature suggests that there are different titles or names: business angels and informal investors. Firstly, angels were those entrepreneurs who made risky investments on the Broadway (Carriere 2006). Today, however, the term business angel denotes sophisticated private investors. Business angels are also known as informal investors, which have a different origin. In fact, in the United States, an informal investor is an “accredited investor”, which was defined in the amended Securities Act of 1933 as follows:

“Any natural person whose individual net worth, or joint new worth with person’s spouse, at the time of his purchase exceeds \$1,000,000”; and “Any natural person who had an individual income in excess of \$200,000 in each of the two recent years or joint income with that person’s spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in current years”. (Carriere 2006: 39)

Concluding the origins of these two signifiers, as pointed out by Saussure (Harrington 2005), encompasses several dimensions of the concept, one is assumption of risk, and the other is the financial capacity of the investors.

5.2. Introduction

Previously, a linkage among business angels was proposed as a concept and two other realities: innovation and entrepreneurship. Despite its widespread usage, business angels are informal investors whose main objective is to participate in new business ventures with financial resources and in some cases, professional advice. These investors participate in those ventures for a short period. The exit strategies do vary, the most common being a trade sale.

However, in relevant projects, the preferred method is by Management Buyout (MBO).² Manson and Harrison conceptualised business angels as, “Informal venture capital (IVC) –

² Management Buyout (MBO) is defined as follows by Damodaran: “A firm may be acquired by its own management or by a group of investors, usually with a tender offer. After this transaction, the acquired firm can cease to exist as a publicly traded firm and becomes a private business. These acquisitions are called management buyouts if managers are involved and leveraged buyouts if the funds for the tender offer come predominantly from debt” (2001: 835).

investments and noncollateral forms of lending made by private individuals (“business angels”) using their own money directly in unquoted companies in which they have no family connection” (Mason and Harrison 2000: Chapter 11).

The construction of the business angel concept will follow a four-step approach. Firstly analysis of the research produced about business angels operating in the United States of America, which will be followed by analysis of the research done about informal venture capital originating in the United Kingdom. Finally, the research produced about the business angel reality in Scandinavia and throughout the rest of the world will be considered, including where these business angels operate and who studied them. It is believed that there was cross-fertilization between the different approaches, in the sense that the way in which research was conducted in a country might have influenced the design of the research in another latitude.

5.2.1. American Research

In 1988, Haar, Starr and Macmillan profiled informal risk investors in the East Coast of America. They defined the market by saying that “this opaque market consists primarily of friends and business colleagues who provide modest funds of money (\$20,000–\$50,000), but are often able to use their networks to assemble a group of investors who will sponsor the entire funding requirement” (Haar et al. 1988: 11). It can be inferred that informal investors tended to invest small amounts of financial resources in projects. There was no reference whatsoever to the duration of the investment or to the profile of investors. However, there is a clear reference to the “opaque” character of this market.

These findings are not compatible with the information provided by an influential author (Wetzel 1987). His work focused on the informal investors market, the other name given to business angels, in the United States of America. The topic is addressed in two different ways: on one hand, they are considered from the supply side, those who provide equity to the market. They appear to be affluent individuals, net worth \$1 million, with extensive experience in management and finance (Wetzel 1987). On the demand side, it was implied that these investors fall into two groups of target investments: start-ups and technological firms, and the second group consisting of established firms in which growth has exceeded the capacity to generate cash flow (Wetzel 1987). Finally, Wetzel suggests that the entire informal venture market, manages an estimated portfolio of around \$50 billion, “twice the capital managed by professional ventures investments” (Wetzel 1987: 299). Informal investors tend to invest in the start-up phase (Haar et al. 1988), which is somehow compatible with the findings obtained by

Wetzel, who also refers to the fact that this is an inefficient market³ (Wetzel 1987), perfectly in line with the reasoning offered by other researchers (Haar et al. 1988). The concept of the equity gap will be the most relevant for analysis of the United Kingdom's reality.

A few years after this, a new piece of research was elaborated in the United States. The aim of this particular work was to evaluate who was responsible for the financing of New Technology Based Firms (NTBFs) outside of the equity capital. Surprisingly, to the authors, a great deal of money came from individual investors. In fact, the authors wrote, that this was a "significant outcome". However, the study by Freear and Wetzel (1990) entitled "Who bankrolls High-Tech Entrepreneurs?", does not explore the circumstances behind that fact, but goes further, when mentioning that there is evidence suggesting that these investors tend to remain related to the business for a long period of time, and that they are willing to finance endeavours both at the seed phase and at the start up phase.

The research involved 284 NTBFs located in New England, USA, from 1975 to 1986 (Freear and Wetzel 1990) and opened up a new line of research: to explore the business angel reality. The previous article conceptualised the informal investors in a rudimentary way. This article, however, approaches the subject in two ways. On one hand, there is a definition of the types of business: technology, and on the other hand there is a reference to the stage at which business angels want to invest at the seed and start up phases.

Business angels are defined using a vague definition: high-net-worth individuals. Under this particular perspective, one has to consider the business opportunities and the investor. The study however goes much further. There is a brief reference to the characteristics of these investors called business angels (Freear et al. 1994). This work sustains that there are three types of business angels: those with experience of investing in entrepreneurial ventures; those interested in potential investors with no venture investment history but who express a desire to enter the venture investment market, and, finally, there are the interested potential investors who under no circumstances would consider investing in entrepreneurial ventures as part of their investment strategy (Freear et al. 1994). The conclusion of this research is compatible with that suggested by Haar et al. (1988), who mentions that informal investors are affluent individuals. Another relevant topic is the fact that it is implied that cooperation does exist between formal venture capitalists and informal business angels. Aram (1989), Freear and Wetzel (1990) are in agreement with this opinion.

³ Wetzel argues that there is limited information about the investors and investment (Wetzel 1987: 300).

In this work (Freear et al. 1994), there is a clear distinction between interest groups, that is to say, those who are interested in investing and those who are not interested in investing at all, and it shows that the interested group is willing to invest at a later stage of the development of the project. This finding somehow contradicts the conclusions of the previous article. Nevertheless, the data was collected in only one state of the United States of America. The authors tend to know now more about the wealthy investors now called business angels. They did it by comparing and contrasting the information obtained from the so-called interested group (business angels with investing experience together with potential investors but with no prior experience) with that of wealthy private individuals with no intention in investing. From the initial research, the concept has been refined. At the beginning, business angels were just private individuals. Afterwards, several distinctions were introduced that contributed to the development of a more elaborate concept.

Sullivan and Miller (1996: 25) mentioned that “this capital market gap is often filled by private individuals who, operating outside of formal financial institutions, are willing to invest their own resources in new business”. In fact, the informal venture capital market was segmented in three ways: economic, hedonistic and altruistic, which implies that the market was not homogenous. The economic segment is where rational decision-making individuals are, whereas the hedonistic segment is for individuals “motivated by what would bring most pleasure” (1996: 26). Finally, altruistic motivations are defended “as a motivation for some economic behaviour” (1996: 26).

Informal risk capital investors were defined (Haar et al. 1988) as business angels. It seems that, from here on in, the concept of business angels gained relevance among academia and in the business community. This sentiment is expressed by Aram (1989: 333) who wrote “in recent years researchers have “discovered” the individual of financial means who invests a portion of his assets in early stage risk ventures”. It is interesting that the author, while referring to the need for further studies, notes that business angels “generally invest within 50 miles of their homes or offices” (Aram 1989: 333). Another relevant conclusion is that “one’s chance of gaining start up financing may be greatest from a person with direct experience as entrepreneur and manager in a related or similar business” (Aram 1989: 346).

There is a reaffirmation that informal investors are affluent people. Prasad et al. (2000) used the signalling theory to mathematically conclude that the willingness of business angels (recognised as “individuals that invest their own financial resources in an entrepreneur’s start up business”

(Prasad et al. 2000: 167)), is dependent on the ratio of the entrepreneur's wealth that is invested in the project.⁴

Feeney et al. (1999) defines private investors as “well educated, wealthy individuals who have typically had experience in start up new business ventures”. Investors prefer to invest “close to home and to syndicate with other private investors” (Feeney et al. 1999: 122). This definition clearly encompasses almost all of the information provided by prior researches. In a way, this definition resumes the concept of business angels. The concept was built up, or socially constructed on a systematic basis, using a Saussurean perspective⁵ that involves contradictory perspectives. On the other hand, the growing importance of business angels, originated research to assess the support given by the United States Government.

In fact, in 2002, Lipper and Sommer published a report resuming the existing evidence regarding state funding to support and promote business angel dissemination. In the United States of America, there is in some states supporting legislation for business angel activities, whereas in other states, these activities are not supported at all, risking loss in some states of their entrepreneurship competencies to other more supportive states.

In any case, business angels are mentioned in Lipper and Sommer's study as providing “the largest amount of capital in more rounds and financed more than ten times the number of firms as their venture capital counterparts” (Lipper and Sommer 2002: 357).

After analyzing the evolution of the business angel concept in the United States of America, I will now undertake the same exercise regarding the United Kingdom. In the United States of America, business angels were mentioned for the first time as individuals willing to finance start-ups. The final concept, which is much more elaborate, is a cumulative product of several research initiatives that can be summarised as follows: high net worth individuals, with business experience and willing to invest in two types of business: start-up and seed phases.

Business angels are not a homogeneous reality however, as there is evidence to suggest that business angels tend to invest not far from home and that they do collaborate with venture capitalists.

⁴ This ratio provides the business angel with an accessible tool to be used in the decision-making process. “Signalling theory, from the financial management literature argues that these signals from the entrepreneur to the venture capitalists help the investor to more accurately evaluate the information they receive (Leland and Pyle 1997),” argued Prasad and colleagues (Prasad et al. 2000: 168), implying that the higher the ratio, the higher would be the willingness of the business angel to participate in the venture.

⁵ Saussure argued that difference creates meaning (Harrington 2005: 98).

5.2.2. Research in the United Kingdom

In a seminal work about the business angel market, in which the work produced by Wetzel (1987) is cited, the influential authors, Harrison and Mason, make a comparison between the markets existing in the United Kingdom as well as in the United States of America. Their starting point is the equity gap. The authors refer to the financing resources available to new ventures and growing companies, which they believe are below the expected level. One of the consequences of the equity gap,⁶ mentioned in the literature, is the surge of business angels or informal investors.

On the other hand, there are inefficiencies in the informal investor market. There are difficulties in communication between demand and supply. This disequilibrium induced the authors to mention that this market is an underdeveloped one (Harrison and Mason 1992). It is implied that, were the communication better, the informal investor market would be even more important.

From the supply point of view, Harrison and Mason argued that business angels in the United Kingdom are predominately male, with a solid financial situation, and with connections to entrepreneurs; they are also older than their American counterparts. On the demand side, they prefer to invest in the start-up phase. On the other side, investments tend to be of small scale, around £50,000 a year (Mason and Harrison 1996). They tend to remain in the business for a long time and the expected return is below that which is required by formal ventures capitalists (Harrison and Mason 1992).

This research was important to begin constructing the business angel concept in the United Kingdom, from the concept of the equity gap, which is a recurring reference in the published literature produced both in the United Kingdom and in Scandinavia.

Apart from the existing equity gap, the new ventures and growing businesses were over exposed to debt, which is not the best way for new ventures to operate. Banks on the other hand, are good sources of information and advice. Venture capitalists are less and less interested in financing small business and seed projects. Under these circumstances, the creation of the so-called BIS (Business Introduction Scheme) was proposed, which “provides a channel of

⁶ The authors suggest that informal investors are contributing to the filling of the equity gap, and in particular, for seed and start up finance (Harrison and Mason 1992: 472).

communication between entrepreneurs seeking to raise finance and provide for investors seeking to make investments in unquoted companies” (Mason and Harrison 1996: 11). The main objective of these structures was to overcome the existing inefficiencies in the informal ventures market mentioned in the article published in 1992 by Harrison and Mason. In fact, the authors suggested that the inefficiencies were more significant in the United Kingdom than in the United States of America. The costs of these proposed structures, according to the authors, should be financed by banks (Mason and Harrison 1996: 11). BIS would provide a new channel of communication between demand and supply of financial resources (equity).

In 1996, Mason and Harrison referred, once again, to the equity gap. In fact, they mentioned that small companies are overexposed to debt and “equity accounts for a small proportion of the overall finance used by SMEs” (Mason and Harrison 1996: 6). They also mentioned that business angels are those “who provide risk capital directly to new and growing business with which they have no prior connections” (Mason and Harrison 1996: 10). Once again, there is a reference to the market inefficiency and to the need to develop new forms of supply to respond to demand. For the first time a distinction is being made between virgin investors, “individuals with the same self-made, high net worth characteristics as active angels but who have not, for whatever reason, entered the informal ventures capital market as individual investors” (Mason and Harrison 1996: 8).

Finally, Mason and Harrison (1996) address Business Angels Networks (BANs), as a new alternative to overcome the inefficiencies of the market, using the publication of relevant material and promotion of conferences, forums and seminars (1996: 13). BAN is a more interesting structure than BIS was.

The other issue mentioned by Harrison and Mason is whether business angels invest alone or, alternatively, whether they participate in syndication. In Harrison and Mason (1992) the authors wrote that investors “operate independently with syndication and joint investment relatively uncommon” (Harrison and Mason 1992: 460). In another work elaborated by the same authors, they mentioned that, to their surprise, there has been fluent communication between informal investors and venture capitalists in “start up and early stage investment” (Harrison and Mason 2000: 240).

Business angels need to have two kinds of relationships: with formal investors and also directly with other business angels, or indirectly, throughout BANs, which as mentioned, replaced the former concept of BIS as a mean of increasing or fostering the relationship between supply and

demand. Mason and Harrison (2002b: 271–87) argued that the chances of not doing business were influenced by several circumstances: low quality of the projects, difficulties in meeting the criteria suggested by the business angels, and difficulties in reaching an agreement on the contracts. These circumstances suggested the development of a new concept of BAN with a broader scope. The authors wrote “conventional BANs will not cause reluctant potential investors to enter the market, nor will they cause the owners of ‘lifestyle’ firms to attempt to expand their business by using external equity capital” (Mason and Harrison 2002b: 284). On the other hand, Mason and Harrison defend the stance that new BANs should actively promote ideas, such as: the importance of equity; the importance of business plans, and should increase the competencies of the virgin business angels (Mason and Harrison 2002b).

In a report elaborated in 2004, Mason and Stark concluded that when compared to bankers and ventures capitalists, informal investors show less consistency in the appraisal of different projects (Mason and Stark 2004). In fact they wrote, “BAs have the least consistency in either approach or outcomes reflecting the great heterogeneity in the angel population and the personalized nature of their investment criteria” (Mason and Stark 2004: 241).

Finally, there is the gender topic, which was never mentioned in the American literature, and is hardly seen in the Scandinavian research either. Harrison and Mason have concluded in research published this year that female business angels tend to support women entrepreneurs. They argued, “Women express and offer [emotional] support rather than engage in transactional behaviour” (Harrison and Mason 2007: 464). Additionally, it is implied in the conclusions that women believe much more in business associates and professionals than in their own capacity to generate new business opportunities. Women are also less willing than men to invest alone, to decide alone, and to foster relations with other business angels (Harrison and Mason 2007).

The concept was a two-fold one, business angels could be studied as wealthy individuals and as investors with their own investment preferences. Earlier research showed that the market apparently suffered inefficiencies. There was little flow of communication between supply and demand. Early research pointed to the fact that, in this particular market, the matching between supply and demand was achieved with the intervention of friends, other business angels or business associates.

It was clear that, in the United Kingdom, research was much more concentrated, but not exclusively, on studying business angels as investors with their own investment criteria and preferences in a market, which was believed to be bigger than a formal venture capital market.

Research at this time pointed several times to the inefficiencies that affect this economic sector, which poses a major constraint to its own future development. Researchers at first explored the BIS concept, followed by the first type BANs. Later in the process, it was suggested that BANs should have a broader scope in order to surpass successfully the limitations detected on BANs of the first type. In fact, first-level BANs revealed a limited success in promoting equity.

5.2.3. Scandinavian Research

In Scandinavia, there has been extensive research on the business angel reality (Sørheim 2005; Reitan and Sørheim 2000; Saetre 2003; Landström 1998; Sørheim and Landström 2001; Erikson 2005; Landström 1993).

Landström did the first research comparing the Swedish business angel reality with those existing both in the United Kingdom and in the United States of America in 1993. This particular effort was a desire to analyse the informal venture reality by studying both the demand as well as the supply side. The conclusions Landström obtained showed that on the supply side investors tend to be males, financially well off and with experience (Landström 1993). On the demand side, investors preferred to invest “in established firms and in more low tech industry sectors” (Landström 1993: 526).

There are strong indications that Swedish informal investors, who on average are older than their American counterparts, do invest a bigger proportion of their wealth when compared to their counterparts both in the United Kingdom and in the United States of America. They also exercise much more caution in selecting the investments, which is understandable, when it is known that they invest a higher portion of their wealth on new ventures.

Later on, in 1998, there was another research produced by Landström, in which the author analysed the informal investor investment decision-making process, starting from the assumption that business angels are also entrepreneurs. According to this research, business angels attribute great importance to the business potential but also to the relations between investor and entrepreneur. Another relevant variable is the assessment of the entrepreneur’s capacity to manage the business successfully (Landström 1998: 321). Politis and Landström suggested that the informal investors are the climax of a three-phase career. The first is the corporate phase, which is followed by the entrepreneurial phase before finally reaching the business angel phase (Politis and Landström 2000).

Research on the Norwegian reality brought up some interesting differences in relation to the previous approach. In fact one study focused mainly on the demand side, has shown that Norwegian business angels invested much more in new ventures than their Swedish counterparts. Actually, in Norway, business angels only marginally invested in companies for more than ten years. On the other side, a new figure has come up: the “lead investor”, which implies that syndication is a current practice. Almost 30 percent of the projects involve some sort of business angel syndicate. Another relevant implication is that Norwegian investors tend to be less active in business; they invest less than the Swedish business angels. Lead investors could partially explain these findings, because they tend to play the “hands on role”, where the other members of the business angel syndicate play little or no role at all (Reitan and Sørheim 2000: 139).

We know that the informal investors market is an opaque and fragmented one. Bearing this in mind, Sørheim and Landström (2001: 351–70) elaborating on the Norwegian market, presented a typology of business angels. This might be important to help in the development of new public policies, argued the authors, because different types of business angels might have a different sensibility towards differentiated public policies. The segmentation was also present in another work elaborated by Sørheim in which two alternatives were presented: regional investors and industry-related investors (Sørheim 2005). As previously discussed, the business angel concept was being constructed considering both the supply and demand sides. Under these circumstances, Sørheim tried to segment the market, offering a new perspective: regional specialization versus industry specialization (Sørheim 2005).

In opposition to the work produced by Landström in 1998, Saetre, in 2003, offered a new perspective in which, for the first time, entrepreneurs were asked to offer what they felt were the most important characteristics in informal investors. The findings suggested that the most important factors were: professional experience; business experience; high-level education; corporate ownership; and self employment. Saetre (2003) also carried out other research to study the business angel investment decision-making process.

Finally, Sørheim explores the fact that business angels are investors that could provide additional financial resources, depending on their experience. In fact, some researchers suggest that experienced business angels play an important role in facilitating further financing of new ventures (Sørheim 2005).

Starting from a study that compares the Swedish reality with those in the United Kingdom and the United States, the findings suggest that there are some similarities as well as differences. On the other side, there are intraregional differences in Scandinavia. There are a number of new concepts such as “lead investors” – a reality in Norway – or that of the investors being entrepreneurs. There were several attempts to segment the market in a creative way, and to explore what were the most important factors influencing the relations between investors and entrepreneurs.

5.2.4. Other Approaches

Apart from these works produced in the United States of America, the United Kingdom and Scandinavia, there have been other researchers worldwide. In Singapore (Hindle and Lee 2002) business angels are defined as “non–institutional equity investors who are neither part of the regular management team nor related to any members of the management team in the investee business” (2002: 170). In Australia, Hindle and Wenban (1999) argue that business angels are high net-worth, non-institutional private equity investors. In Canada, Duxbury and colleagues (1996) stated that informal investors are considered “wealthy individuals” (Duxbury et al. 1996: 44). In Germany, Brettel (2002) mentions that “business angels frequently participate in financing young companies” (Brettel 2002: 53). Finally in Japan, Tashiro (1999), although not defining business angels, says that “the role played by Japanese business angels in financing entrepreneurial companies is still at a very early stage compared to the situation in other countries” (Tashiro 1999: 272).

5.3. Business Angels as Individuals

According to a number of authors (Mason and Harrison 1996; Wetzel 1987), informal capital markets do have extensive dimensions both in the United States of America and in the United Kingdom. Starting from this macro perspective, attention is now directed to discover who these business angels are. From the existing literature, the most relevant characteristics will be defined, in terms of age, education, business experience, income, and net-worth, and about the estimated returns that business angels anticipate before entering into an investment.

5.3.1. Age and Education

Brettel (2002) argues that, according to his research, German business angels are on average forty-eight years of age (Brettel 2002), similar to that observed in the United Kingdom and in the USA (Brettel 2002). In fact, 29 percent of the surveyed German business angels were

between forty-five and fifty-four years of age, 27 percent were between thirty-five and forty-four years, and only 4 percent were more than 65 years old (Brettel 2002). Moreover, the author mentions that in the United Kingdom business angel communities appear to be much older, since 43 percent are older than fifty-four years of age. In Brettel's work, while mentioning that the study of the business angel reality is relatively new in Germany, there is no reference to the educational level of German business angels. However, the author wrote, "as was established in other studies, business angels in Germany are predominantly male; the sample of German study was exclusively male" (Brettel 2002: 54).

In Singapore, however, according to Hindle and Lee (2002), 75 percent of the business angels involved in their survey were between forty and fifty-nine years old. Almost 90 percent of the business angels were males. It is interesting that the three females involved in the research were much younger, between twenty and thirty years of age. This information is comparable with the existing evidence about the Australian reality, but not with the findings obtained in the Japanese research (Hindle and Wenban 1999; Tashiro 1999).

In Australia (Hindle and Wenban 1999), the situation was slightly different. In fact, the median age of the business angels surveyed was around forty years of age. The distribution found in this research was the following: 14 percent were between fifty and fifty-nine years of age, while 50 percent were between thirty and thirty-nine years old. All the business angels were males. In terms of education, business angels exhibit two categories: those who were highly educated, and those who had only a basic education. The authors stated that "there were very few with education levels between, or on either side of, these two groups" (Hindle and Wenban 1999: 173).

Yasuhisa Tashiro (1999) produced research that focused on the characteristics of Japanese business angels (Tashiro 1999), where he mentions that the average age of Japanese business angels is sixty years of age. This finding is in contrast with the research done both in Singapore and in Australia, where business angels tend, on average, to be much younger (Hindle and Lee 2002; Hindle and Wenban 1999). The author justifies the fact by writing "a tendency to concentrate on the career until retirement and, second, the longer time required in Japan to develop a business to a stage where it can be taken public, and thereby generating wealth for an entrepreneur that can be used in making angel investment" (Tashiro 1999: 270). Most of the targeted business angels in Japan, which were exclusively male, hold a university degree, which is compatible with the findings obtained in Singapore and, partially, in Australia.

In a study elaborated on the Norwegian business angel reality, the authors argued that, in Norway, business angels are typically males “aged between 35 and 55 years of age, with high education” (Reitan and Sørheim 2000: 133). These findings do not differ greatly from Brettel’s observations when he studied the German business angel reality (Brettel 2002).

5.3.2. Business Experience

In the study produced in Germany, the author implied that almost 85 percent of the surveyed private investors had previous management experience in companies of the same type (Brettel 2002). On average, they had twelve and a half years’ management experience, and had previously participated in one or more investments. In terms of current German business angel jobs, Brettel states that, “about one-third of business angels are active in corporate management” (Brettel 2002: 55–56). It is interesting to note that, according to this research, two-thirds of German business angels are actively involved in corporate management. Brettel signals that this proportion – 69 percent – is identical to that observed both in the United States and in Sweden. In the United Kingdom, the number of business angels involved in corporate management, while not mentioned, was lower (Brettel 2002).

Hindle and Lee mentioned that 72 percent of business angels that participated in the Singaporean research, had management experience “in [their] own business” (Hindle and Lee 2002: 174), and that 65 percent of them had “made two or more investments” before (Hindle and Lee 2002: 174). In the Australian case, Hindle and Wenban did not refer explicitly to the previous business experience of the Australian business angels. However, the authors mentioned that the business angels “rated themselves as ‘general managers’ and ‘people managers’ and most had been involved in several start up ventures before” (Hindle and Wenban 1999: 173).

Regarding the Norwegian experience, Reitan and Sørheim wrote that business angels have “extensive work experience” (Reitan and Sørheim 2000: 133), in the “area of management and experience with new ventures/company ownership” (Reitan and Sørheim 2000: 134). Business angels, on average, make one investment per year (Reitan and Sørheim 2000: 137). Other authors estimated one to two investments per year (Sørheim and Landström 2001).

In Japan (Tashiro 1999) 60 percent of business angels surveyed had experience in the creation of companies. The average was five investments in the last three years. This roughly equates to an investment every eighteen months.

5.3.3. Income

According to Brettel, German business angels exhibit the following income pattern: two-thirds of the business angels surveyed have an annual income above \$250,000, and 38 percent have an income higher than \$500,000. More than 24 percent of the surveyed business angels had an income higher than \$2.5 million (Brettel 2002).

In the study he co-authored, Hindle did not mention the income profile of the Singaporean business angels (Hindle and Wenban 1999). However, in the report he produced on the Australian reality, the following pattern was shown: 34 percent had an income between \$200,000 and \$299,000, 32 percent had an annual income of between \$100,000 and \$199,000, and finally, 33 percent had an income below \$99,000 but above \$50,000 (Hindle and Wenban 1999).

Norwegian business angels have, according to Reitan and Sørheim, a “gross income (on average) of US\$76,300 and average net worth (not including their homes) of close to US\$410,000” (Reitan and Sørheim 2000: 133).

The Japanese have on average a higher net income. According to Tashiro, among the surveyed business angels, the average income was \$640,000 or more. Their average financial assets were of \$8 million or more (Tashiro 1999).

5.3.4. Psychological aspects

After this extensive review about the different concepts present in the literature about business angels, motivation will now be analysed. Pérez López (1996) postulated the existence of three major blocks of theories regarding motivation. On the first set — the mechanical approach — the focus was on incentives and productivity. The most representative work produced using this approach was that by Elton Mayo and Fritz Roethlisberger, about the Western Electric Company’s Hawthorne factory. According to Pérez López, for those in support of this mechanical approach, a company was nothing more than a technical system (Pérez López 1996).

The other set of theories to which López referred (1996: 46) were the psycho-sociological, according to which people work not only to be paid but also to have another set of objectives that are fulfilled through work. Chester Barnard’s work is relevant as is another author, Abraham Maslow, with his pyramidal structure of human needs. We can also include Herzberg,

who suggests that a distinction should be made between hygiene and motivational factors. In this set, there is also space for McGregor's X and Y theories. (Pérez López 1996).

Finally, there are the anthropological theories, which have great support from Pérez López, and according to whom, there are three types of motivations: extrinsic, intrinsic and transcendental. On the other hand, there are three types of needs to be fulfilled: material, cognitive and affective.

According to the pioneering work produced by Duxbury, Haines and Riding (1996), Canadian business angels invest because on one hand, it is a potentially profitable area, and on the other, because they feel the necessity for "achievement affiliation, and involvement" (Duxbury et al. 1996: 53). These authors also mention that if these previous assertions are correct, the best way for entrepreneurs to attract business angels is by offering them the possibility of a "challenge" in which s/he will have an "active role" (Duxbury et al. 1996: 53).

There is however, another work done by Politis and Landström (2002), where it is stated that business angels, before getting to this stage, will have passed two previous phases: (1) the corporate phase and (2), the entrepreneurial phase. Finally, the end of the road is the so-called, integrated investment career phase (Politis and Landström 2002). This study suggests that during the entrepreneurial phase, investors are prepared to start operating as business angels. This is somehow compatible with the findings provided by other authors (Duxbury et al. 1996).

Landström, in another seminal work, claimed that among the motives were "the satisfaction of playing an active role in small business" and "having a certain influence on an investment" (Landström 1998: 329) and these factors have often been pointed to as being important for informal investors.

In Germany, and according to Brettel (2002), the three most important factors for acting as a business angel were: (1) for fun; (2) to support young companies; and (3) to attain high-capital growth. The least important factors were: (1) recognition in the community; (2) for tax purposes; and (3) to help friends or family members (Brettel 2002).

In the research project produced about the Japanese business angels, Tashiro (1999) suggests that business angels do have financial as well as non-financial benefits. His findings showed that most of the business angels who participated in his research answered that non-financial benefits or rewards were as important, or even more important, than financial benefits (Tashiro

1999). Among the non-financial rewards are: contribution to the development of young entrepreneurs, and involvement in entrepreneurial business (Tashiro 1999).

In another line of reasoning, Sullivan and Miller (1996: 25–35) suggest that informal capitalists should be segmented into economists, hedonists and Altruists (1996: 16). This approach implies the existence of material needs as well as needs of another dimension as was suggested by Pérez López.

5.4. Business Angels as Investors

5.4.1. Exit Strategies

In Germany, and according to Brettel, 46 percent of the business angels surveyed have already sold a company, and the preferred exit strategy to German business angels is through an IPO⁷ (Brettel 2002).

In Singapore, 65 percent of the surveyed business angels argued that they had had two or more previous investments. However, it is not clear whether they have sold those investments or not (Hindle and Lee 2002). In Australia, there is no reference to the preferred exit strategy, in any case, three years is the median investment period, and the minimum required Internal Return Rate (IRR)⁸ is 20 percent.

In Japan, there is evidence to suggest that for business angels, IPO is the preferred exit strategy together with trade sale (Tashiro 1999). The return expectations do vary widely, and for some business angels the expected return rate was between 10 percent and 50 percent (Tashiro 1999).

5.4.2. Percentage of invested capital and returns

Brettel defends his assertion that 15 percent of surveyed German business angels said they invested more than 25 percent of their own total wealth. On the other hand, 21 percent of the private investors in the United Kingdom invest more than 25 percent of their own wealth in new projects, whereas 34 percent invest less than 5 percent of their own fortune. In the United States

⁷ Initial Public Offering (IPO) is defined by Damodaran as: “As firms become larger and their capital needs increase. Some of them decided to become publicly traded and to raise capital by issuing shares of their equity to financial markets” (Damodaran 2001: 521).

⁸ Internal Rate of Return (IRR) is the discount rate at which investment has a zero net present value (Brealey and Myers 1990: G6) (translation from Portuguese by Ricardo Gouveia).

of America, 32 percent of the surveyed business angels invested less than 5 percent of their entire wealth, whereas 33 percent invested more than 25 percent of their entire wealth. In Sweden, and according to the same author, 17 percent invested less than 5 percent and 34 percent invested more than 25 percent of their entire wealth (Brettel 2002).

In Australia, according to Hindle and Wenban, the median proportion of business angels' capital already invested in entrepreneurial ventures was between 10 percent and 14 percent, although in almost a quarter of the surveyed subjects, over 25 percent of their net worth was committed to these investments (Hindle and Wenban 1999). No information is available for the Singaporean reality.

In Norway, 28 percent of business angels surveyed are expected to invest less than 5 percent of their own net wealth, whereas 34 percent are expected to invest more than 25 percent of their total net wealth (Reitan and Sørheim 2000). These authors note that "anticipated returns also vary, although most investors have relatively moderate expectations: 78% expects less than 50% average annual return, and 55% expect their return to be less than 30%" (Reitan and Sørheim 2000: 136).

In Canada, no evidence is available about the percentages of the investors' net wealth invested, however there is evidence suggesting that the median expected investment period is of three to five years. For the Canadian business angels surveyed, 33.3 percent answered that they expected a return of between 20 percent and 30 percent (Feeney et al. 1999).

5.4.3. Typology

At the beginning, there was no evidence of categories regarding business angels. It could be suggested that some researchers started by implying the existence of two groups of investors, one of wealthy investors and the other of individuals not so financially well off. Afterwards, however, there was segmentation, with the introduction of the following variables: age, education, business experience, income, net wealth, and entrepreneurial experience followed by the application of other segmentation criteria: time spent involving investment decisions and perceived benefits to investors.

The first distinction made with regard to business angels was in 1990, in Freear and Wetzel's study, "Who bankrolls High-Tech Entrepreneurs?" In this American-based research project, a distinction was made between business angels involved in early-stage projects and those who

invested later. This publication also made an indirect distinction between investing in new technology projects and investing in other opportunities. Harrison and Mason also mentioned a distinction between early-stage and seed-phase investments in the United Kingdom. In these circumstances, there was no direct *liaison* to technology projects.

Previously, the distinctions or segmentation criteria used two variables: at what phase was the project when business angels entered? What was the field? In 1996, Sullivan and Miller proposed new segmentation criteria. Following a study involving more than 200 business angels, the authors proposed three models or types of informal investors: hedonistic, economic and altruistic. The characterization was based on the “perceived values or benefits they derived from their investments” (Sullivan and Miller 1996: 25). According to the authors, the economic type invested in order to maximise wealth. The hedonistic types were those who tried to maximise their pleasure and minimise their pain (Sullivan and Miller 1996). Finally, the third group, the altruistic, had some moral values when it came to investing.

In 1993 Landström conducted a comparative study in which he segmented the market into two different groups: on one side were the *ad hoc* and infrequent investors, on the other, were the most active “professional and sophisticated investors” (Landström 1993: 538).

Then Landström suggested another typology, segmenting business angels into two different clusters where one cluster of investors view ‘firms as subjects’, the other cluster of business angels consider firms “as objects”. Under this approach, business angels who envisage firms as “objects” tend to be involved in formal relations with entrepreneurs (Sørheim and Landström 2001).

Now Sørheim and Landström proposed an alternative categorization of business angels according to their level of activity and competence (Sørheim and Landström 2001). This was also shown in other research (Sørheim 2005). (See Table 1 below).

High Activity	Traders	Pure Business
Low Activity	Lotto Investments	Analytical Investors
	Low Competence	High Competence

Table 1: Categorization of business angels based on Sørheim and Landström (2002).

The traders were those business angels revealing high activity and low competence, whereas the “pure business” angels were those investors showing high activity and high managerial competence. On the other side, lotto investors were individuals expressing low activity and low competence. Finally, the analytical investors were those business angels showing high competence but low activity.

Gaston (1989) identified five different types of business angel: business devils, godfathers, peers, corporate achievers, stockholders, high-tech angels, Daddy Warbuck, Cousin randy and very hungry angels. The author compared the different categories with the United States composite angel. The conclusion was that the informal capital market is highly heterogeneous and that entrepreneurs should be aware of that (Sørheim and Landström 2001).

Freear, Sohl and Wetzel suggested that among high-wealth individuals there were three kinds of segments: business angels with investment experience, potential investors with no previous experience and, finally, “uninterested potential investors, who under no circumstances would consider investing in entrepreneurial ventures” (Freear et al. 1994: 109). Landström and Sorheim commented as follows, “an interesting fact is that both active investors and the potential investors are, to a large extend, interested in making investments in geographical proximity to their home or place of work” (Sørheim and Landström 2001: 354).

Stevenson and Coveney claimed to have identified the following types of business angels: virgin, latent, wealth, income-seeker, entrepreneurial, and corporate investor. They argued that two of them are potential investors, while “four categories were active investors” (Sørheim and Landström 2001: 354).

5.4.4. The Dimensions of the Market

There is great difficulty in defining the market, which is considered to be not homogenous and somehow obscure (Prowse 1998; Landström 1998; Mason and Harrison 2002b; Hindle and Wenban 1999). Other authors suggest the opposite (i.e. Sørheim 2005), however, and defend the stance that there is substantial information regarding this particular market.

In any case, from the beginning, both sides of the Atlantic tried to estimate the dimension of the informal capital market which, most of the time, they did by comparing it with the formal venture capital market. In 1987, Wetzel wrote that “the available data suggests that the informal capital market is twice the size of the professional venture capital market” (Wetzel 1987: 312).

Landström cited Wetzel and Freear when in 1993 he mentioned that the informal market in the the United States was reckoned to be five times bigger than its formal counterpart (Landström 1998).

Freear and Wetzel showed evidence that private individuals were the most important supporters of New Technology Based Firms (NTBFs), when it came to support at the seed phase (Freear and Wetzel 1990). Sohl, using a similar line of reasoning stated that “there are two segments of the venture capital market: one visible and one relatively invisible. The visible segment represented by about 500 venture capital funds that managed between \$35 to \$45 billion. The invisible segment is the oldest and largest of the US venture capital industry” (Sohl 1999: 106).

Prasad, Bruton and Vozikis argued that venture capitalists only finance a small percentage of potential ventures presented to them. As an alternative, business angels are the more accessible form of financing (Prasad et al. 2000). On the other hand, Duxbury et al. (1996) wrote that, “the size of the active market for informal capital has been estimated at least as larger as the formal institutional market” (Duxbury et al. 1996: 44–45). Wiltbank, who cited Sohl in his work, suggested that, “current estimates suggest that the angel investing market is actually larger than formal ventures capital investing” (Wiltbank 2005: 344).

That is partially true. In fact, for the American and UK markets, there are estimates about the overall dimensions of them both. Mason and Harrison (2000) argued that informal venture capital (IVC) in the UK is substantially bigger than the formal venture capital market (Mason and Harrison 2000). Later, the same authors mentioned that “the angel market place ... represents the biggest single source of finance for business at the seed, start up and an early growth stage” (Mason and Harrison 2002: 271). Apart from this and from a more quantitative perspective, the authors defend the proposition that there are at least 30,000 to 40,000 business angels in the UK, which invest between £0.5 billion to £1.0 billion a year, in 3,000 to 6,000 new ventures. According to the same authors, the market could be growing at a higher rate if there were not several constraints, the most important of which they identified in their research (Mason and Harrison 2002).

The informal capital markets are more important than their formal counterparts in the US, as they are in the UK as well. There is no formal evidence for other countries.

Having analysed the dimensions of the market, the focus will now be on profitability.

5.4.5. Profitability

There have been a small number of studies regarding profitability of investments promoted by business angels (Mason and Harrison 2002). In fact, this market is almost anonymous, and it is difficult to get reliable information. Moreover, it is extremely difficult to assure that the information collected represents an unbiased sample of the market.

The first work, produced in 1994 (Lumme and Mason 1996), mentioned that the exit strategy of Finnish business angel investments was through trade sales. At the same time, the median average investment time was four years. Besides, in this particular research, almost one-third of the investors surveyed mentioned they had a positive profitability. Almost 20 percent of the overall investors referred to have had, on those investments, an Internal Rate of Return (IRR), above 20 percent. This study identifies two clusters of business angels: one group of six investors had made ten exits always with a profit; whereas there was another group of eight investors who made seventeen unsuccessful exits. Successful investors had spent a career in top management of big companies, and invested for fun and satisfaction. Unsuccessful investors, on the other hand, tended to belong to the top tier of SMEs,⁹ and tended to give greater emphasis to altruistic and social responsibility motivations (Lumme and Mason 1996).

In an important study by Sommer and colleagues (1996: 1998), they concluded that 20 percent of the surveyed business angels the IRR observed was higher than 20 percent.

In their latest work, Mason and Harrison (2002a) concluded that the return was negatively skewed,¹⁰ as trade sales were the best way to leave the business, they also posited that the median holding period was four years, and that for the larger deals Management Buyouts (MBOs) are the best way to generate high income. According to Mason and Harrison (2002a) the success figures are similar to those associated with formal venture capital. However, failures are less frequent among the IVC investments. The study produced the following outcomes: 34 percent of the surveyed investors exited the business with losses; 13 percent left at the break-even point; and 23 percent experienced an IRR above 50 percent.

In the USA, Wiltbank produced similar research. The findings were as follows: almost two-thirds of the angel investments failed, “while 20% of the exits were over 100% IRR” (Wiltbank

⁹ Small and medium sized enterprises (SMEs).

¹⁰ Skewed distribution is a probability distribution in which an unequal number of observations lie below and above the mean. (Brealey and Myers 1988: G10).

2005: 356). The distribution of outcomes was similar to that produced in the research conducted by Mason and Harrison in 2002a. There are, however, several additional considerations: the extension of the due diligence is somewhat related to a negative exit, which means leaving the company with a loss.¹¹ On the other hand, if the business angels are in the venture from seed capital stage, that is, from the very early stages, the rate of failure is lower than if the investment is made at a later stage of the project development (Wiltbank 2005).

¹¹ The author suggests that the longer the due diligence the lower is the probability to exit the investment with a loss.

Table 2: Business angel profiles. Information extracted from Brettel (2002), Mason and Harrison (1996; 2000, 2002a, 2002b), Tashiro (1999), Hindle and Lee (2002), Hindle and Weban (1999) and Reitan and Sørheim (2000). Source: author's own.

	Germany	UK	Singapore	Australia	Japan	Norway
Age/ Education	Average age: 48 years old	34% are over 54 years old	75% of business angels were 40–59	Median was 40 years old	Average age: 60 years old	Between 35 and 55 years old
Business Experience	Average: 12.5 years	N/A	72% had management experience	"Business angels rate themselves as general managers"	"Had founding experience"	Extensive business experience
Annual Income	2/3 have more than \$250,000	N/A	N/A	34% had income between \$200,000– \$2999,000	Average income was \$640,000	Average income of \$76,300
Psychological Aspects	Fun; Support young companies; Attain high capital growth	N/A	N/A	N/A	Financial reward; Involvement in entrepreneurial business; Contribution to the development of young entrepreneurs	N/A
Exit Strategies	IPO is the preferred method	N/A	N/A	N/A	IPO is the preferred method	N/A
Invested Capital	Business angels invest 25% of personal total wealth	More than 21% of Business angels invest more than 25% of personal total wealth in new projects	N/A	Business angels invest 25% of personal wealth	N/A	34% of business angels are expected to invest more than 25% of personal total net wealth
Market Dimension	N/A	£0.5– £1 billion p.a.	N/A	N/A	N/A	N/A

6. Business Angels in the United Kingdom

6.1. Business Angel Groups: an Overview

Carriere (2006) tried to classify the business angels groups in his work, for which the starting point was the work of Payne and MacArty (2002), who suggested studying angel groups according to five different variables: management structure, legal structure, investment structure, type of membership, and funding operations.

After applying this framework to UK business angel groups, Carriere (2006) discovered two distinct forms of business angel groups: introductory agency and the angel fund.

Of these two groups, the introductory agency sees entrepreneurs and investors brought together whereby the two parties then move forward together both in terms of the due diligence and in the investments. It is understandable that the management of these groups is decentralised. Each investor decides on her or his investment strategies and preferences and therefore must be very proactive.

The second of these two types of associations, the angel fund, sees a central core, which is responsible for taking the investment decisions and for selecting the appropriate investors. Accordingly, there is a centralised structure. On the other hand, there is a group of investors that invite participation in the investment and contribute funds, but do not actively participate in the fund management or on the venture itself. Therefore, in this structure, the business angels tend on average to be more passive than in the alternative structure, that is, in the more proactive introductory agency.

6.1.1. British Business Angel Association (BBAA)

The British Business Angel Association (BBAA) has twenty-two full members and almost fifty-nine associates. Full members must be business angels groups, networks, or syndicates; they must be involved in financing SMEs and finally must be sponsored by two other full members before joining the Association. Associates are those organizations interested in this particular market.

6.2. UK Business Angels Survey conducted in 2003 by 22 Ventures

In 2002/3 a survey was conducted among twenty-two ventures (Paul Gardner 2003), to assess the attitudes of UK business angels. There were some interesting elements to this survey: 70 percent of respondents were from London, the South West and East Anglia; only 5 percent were women; 19 percent of respondents considered themselves as high net worth individuals, whereas 56 percent rated themselves as sophisticated investors.

It is important to mention that almost 70 percent of the business angels that answered this survey had current business experience. On the other hand, 39 percent of the respondents had active management involvement in their investments.

Another 40 percent had selective involvement, that is to say, a partial or limited involvement, and the rest did not have any involvement at all. One can conclude from these results, therefore that UK business angels are then active in their investments.

In terms of experience, is important to mention that 75 percent of the business angels had had previous involvement in these kinds of projects. 40 percent had more than five years experience. It is quite impressive. UK business angels tend to be quite experienced. The study mentions that this has “injected a substantial degree of realism into a Business Angel’s negotiation” (Gardner 2003: 12).

Another area that was covered by this survey was the geographical location of investments. The literature seemed to suggest that investments tend to be concentrated near the permanent UK residence of the business angels. This survey, however, revealed a different pattern. Only 17 percent of the business angels surveyed invested within fifty miles from home. On the other hand, almost 53 percent of business angels mentioned investing more than 150 miles away from home, and eventually, abroad.

Another relevant topic related to the purpose or motivation behind the decision to invest. The vast majority, 25 percent, mentioned that the most important factor was a higher expected ROI. However, the least important motive was to have fun in the investment.

As previously discussed, business angels tend to share risk. This is also shown in this survey, where 55 percent of the business angels “liked to share risk” (2003: 14). It is interesting that business angels do not tend to be interested in investing with family or friends.

Business angels are known to prefer to invest at the early stage of the project. This survey shows this trend. In fact, almost 65 percent of those surveyed said they invest in the early stage of the project (30 percent at the start-up phase, 32 percent at the pre-revenue phase).

Another relevant topic was analysis of investors' status. This is a self-assessment, with interesting conclusions. In fact, 17 percent of respondents mentioned that they considered themselves as high net-worth individuals, whereas 5 percent did not understand the term.

Tax implications and consideration of the Enterprise Investment Scheme (EIS) were other relevant issues. In fact, business angels are aware of the existing incentives, however only 6 percent of the respondents mentioned that they considered this item relevant.

The European Business Angels Network (EBAN) White Paper (2006) mentioned that "The UK's Enterprise Investment Scheme is the most advanced in Europe, providing angels with tax relief on both capital gains and capital loss, and providing a relief upfront when the investment is made" (2006: 9).

Normally, business angels do not want to remain in the business for a long time. This survey shows that almost 18 percent expect to exit and aim to have their required return in between one to three years. However, 82 percent of investors expect to remain in the business for more than four years. In terms of returns, the survey shows that 28 percent of the respondents expected a ROI of between 50 percent and 100 percent. Almost 28 percent expect a return of more than 200 percent. It is important to introduce a note of caution: not all the investments are successful. Almost 43 percent of the respondents mentioned having to "write-off" investments in the last two years

The average investment was £25,000; almost 40 percent of the investments were below £20,000. Only 1 percent of the respondents invested more than £1 million. The estimate value for future investment will be £27,500, however almost 40 percent of the respondents will invest less than £20,000. For the future, 40 percent of the respondents plan to invest less than £20,000, whereas 35 percent aim to invest between £21,000 and £50,000.

According to the existing literature, the business angels are not expected to remain in the business for a long time. In fact, the survey claims that almost 18 percent of the respondents are expected to exit the business in between one to three years. Almost 82 percent of the respondents expected to remain in the business for more than four years. The investments are

made in different sectors. The most likely sectors for investments are healthcare, biotechnology, professional services, and electronics. These are the sectors that, according to the respondents, are most likely to show improvements in 2003, or in the near future. However it is interesting to note that the “hot” sectors according to respondents include software, biotechnology, healthcare, and electronics.

7. Portuguese Institutions

7.1. The APBA and the FNBA in Portugal

In Portugal there are two main business angel organizations: the APBA and the FNBA. I will analyse in detail the two organizations, starting with the APBA.

7.1.1. Associação Portuguesa de Business Angels (Portuguese Business Angels Association) (APBA)

The Portuguese Business Angels Association (APBA) was founded in 2006. Its main purpose expressed in the articles of incorporation, while being a non-profit organization, is to contribute to the development of a new generation of innovative entrepreneurs. Another fundamental objective is to promote the increase of interconnectivity among entrepreneurs, academics, financiers and scientists interested in the development of an innovative economic environment.

The mission statement is accessible on the website, which states:

“The APBA members believe that business, at seed level as well as early state level; do characterize the true level of entrepreneurship. They are critical to a successful economy. These early born companies do create jobs with future perspective, and in parallel are the best way that experienced investors have to support new ventures willingly.”¹²

The mission statement contains several interesting elements which are somehow compatible with the existing literature. The focus is on a project at the entering phase: seed capital or early stage, all of which is compatible with the stance of the existing literature.

The APBA is a dynamic association, chaired by João Trigo Rozas. Th APBA began with sixty-six members and with about €2–€10 million available for investment. Roughly, one million has already been invested in projects.¹³

¹² The Portuguese Business Angels Association (APBA) website, available at: http://www.apba.pt/qs_missao.html [last accessed 27 August 2007]. (Translation from Portuguese, Ricardo Gouveia).

¹³ Ibid.

According to the APBA, a business angel is a private individual who invests in a new business opportunity (start-up or early stage) and participates in the project with “smart money”, that is, with financial resources and the ability to give professional advice.

On the other hand, this definition of a business angel is compatible with that provided in the available literature. A business angel invests between €25,000 and €500,000 on a project. The aim is that investments take place in Portugal, especially in the region where the investors live. This is compatible with the existing data provided by the literature, which suggests that in various circumstances, informal investors tend to invest not far from their own homes.

This particular association, which is affiliated to EBAN,¹⁴ has developed and recently published a code of conduct. According to the EBAN Directory (2005), the APBA was founded in 2006, had sixty-six angels, of which two were women. At that time in mid-2006, they were assessing twenty-five new projects but there was no indication of any closed deals at that time.

According to an institutional brochure recently published by the APBA, it has currently more than 100 private associates and an institutional one. This represents almost €10 million available for investment.

The APBA analysed almost seventy different projects representing, on average, almost five per month. At the same time, it has expanded its presence from Lisbon, the starting point, to the rest of the country. A delegation has opened in Oporto, Portugal’s second largest city, and delegations are being considered in Madeira and in the Azores, two archipelagos in the Atlantic Ocean, which are Autonomous Regions within Portugal.

Recently APBA conducted a survey among its members. There were thirty replies. The respondents were exclusively male of between thirty and sixty years of age. The median age was between forty-one and fifty years; predominantly managers and entrepreneurs but there were also some professional services. All of them mentioned that they had experience as entrepreneurs and/or investors.

According to the survey, business angels are motivated by financial return on investments, personal satisfaction, and desire to help the country toward future development. The associates

¹⁴ European Business Angels Network (EBAN), available at www.eban.org [last Accessed: 27 August 2007].

are willing to invest on average around €45,000 per project throughout the country and even abroad, and show an interest in syndicated investments.

It is interesting to note that almost 60 percent of the respondents stated that they were ready to invest, whereas 23 percent said that they would be able to invest in two years' time.

The vast majority – 90 percent – of the business angels surveyed were willing to participate in two to three investment opportunities. Only 7 percent of the business angels involved in this survey were interested in participating in one project alone. Almost 3 percent were interested in participating in four to six new ventures.

Another interesting fact extracted from this survey was that 40 percent of business angels are interested in investing in Portugal and 33 percent are willing to consider investing outside Portugal, for instance in Brazil, Africa and Eastern Europe.

The most interesting or promising sectors in which to invest, according to the business angels surveyed are hospitality, health, biotechnology and technology and telecommunications.

Finally, 58 percent of business angels mentioned that they preferred to invest in syndicates with another business angel.

7.1.2. Federação Nacional das Associações de Business Angels (National Federation of Business Angels Associations) (FNBA)

The first business angels club or organization started in 1999, called the “Business Angels Club”, this was then followed by the creation of several other new clubs or organizations throughout the country.¹⁵

Another organization, called the Federação Nacional de Associações de Business Angels (National Federation of Business Angel Association; FNBA) was founded in 2007. This includes among others the following clubs: Business Angels Club, Cascais Club, Algarve Business Angels, and Covilhã Business Angels. The main objective of this federation is, while expecting that the overall number of business angels will reach 300, to create a linkage between the different local structures, to develop Business Angels Networks (BANs) throughout the

¹⁵ Gesventure: available at <http://gesventure.pt> [last accessed 27 August 2007].

country, and therefore to increase the contacts and exchanges between business angels in Portugal.

This association defines business angels as private investors among whom many are entrepreneurs or company directors who invest privately, using their own financial resources, knowledge and experience, in a new business venture promoted by new entrepreneurs. The aim of this investment is to create value on a long-term basis, expecting to sell the shareholder position with a profit. Besides this, the federation's intention is to promote business angel activities and to foster a positive environment for business angel activities.

The federation has also joined EBAN, in whose directory (2005) it is named. According to the latest available information, Gesventure analysed four projects,¹⁶ among which there was one closed deal of about €50,000.

7.2. The Portuguese Business Angel Market

In 2005 less than 20 percent of the venture capital industry's investments were made on start-ups. Seed phase investments in Portugal at this time were virtually non-existent.

From the twenty-five opportunities analysed by the APBA in 2007, thirteen were from the Lisbon area, three from Leiria, two from Oporto, two from Coimbra and the others originated in other regions of Portugal.¹⁷ It is interesting to note the distribution of sectors: six from services, five from technology and media, three from health and biotechnology, three from industry, three from food and restaurants, two from leisure and tourism and the last three from other unspecified sectors.¹⁸ Considering the stages of development, nineteen were at the seed phase, four at the early stage, six start-ups, and five were in the growth phase.¹⁹

In terms of financial need, in five of the projected investments the desirable financial resources needed were not specified; in six of them, the expected financial needs were below €250,000; in nine of them the financial requirements were below €750,000. Finally, in five different investments the projected financial support was above €750,000.²⁰

¹⁶ Ibid.

¹⁷ Tecparques–Associação de Parques de Ciência e Tecnologia, available at www.tecparques.pt/encontrooutono/apresentacoes/7.ppt [last accessed 27 August 2007].

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

7.3. Portuguese Public Policies

Up until 2007, there has been no public support for the business angel activities in Portugal. But it seems that the circumstances are changing. Recently, for the first time, the Portuguese government has approved new legislation to frame business angel activities.²¹ In recent months Portuguese business angels have received extensive media coverage.

In the near future it is expected that new legislation will be approved allowing tax incentives for business angels' investments, as is already the case in the UK.

7.4. Entrepreneurship in Portugal

The entrepreneurship activity ratio logs the percentage of individuals with businesses that have been in operation for three to five years in relation to the overall active population. In Portugal, this figure was around 4 percent in 2004; a decrease from the value observed in 2001, which was 7.1 percent. In France, in 2004, the value was of 6 percent, and in Ireland, in the same year, the ratio was around 8 percent. In Portugal, entrepreneurship activity fell from 2001 until 2004. However, at a recent conference²² that took place in Lisbon, Filipe Pinhal highlighted that the entrepreneurship phenomenon is more persistent in the west of the country, where the most important cities are located. Apart from this geographical perspective, it is important to point out that there are two promising entrepreneurial groups: university students and immigrants (Pinhal 2007).

In fact, research has shown that there is interesting entrepreneurship activity among students, in university or polytechnic schools, especially in the capital Lisbon and in Oporto, the second most important city in Portugal, located in the north. Almost 56 percent of new companies promoted by university or polytechnic students originated in Lisbon (36 percent) and in Oporto (20 percent).

²¹ Rádio e Televisão de Portugal, available at www.rtp.pt/index.php?article=293925&visual=16 [last accessed 21 June 2007].

²² The Entrepreneurship and New Venture-Creation Conference was held in Lisbon on 21 June 2007, ISCTE Poster available at www.dpi.uevora.pt/index.php/en/content/.../477/.../conf_junho2007.pdf [last accessed 12 May 2013].

Immigrants that have arrived to Portugal in recent years appear to be a highly skilful and entrepreneurial group. Portugal, like other European countries, has experienced this inflow of immigrants arriving from Eastern European countries. Of these, 53 percent of the companies, whose shareholders were immigrants, were formed in Lisbon.

The entrepreneurial is a broad phenomenon. It exists throughout the country with some incidence in the west of Portugal. There are however other entrepreneurial groups: unemployed and retired people younger than 65 years of age. Both groups exhibit entrepreneurial capacity throughout the country. A similar scenario is true for women.

8. Personal Reflection

There were three different phases in the construction of Document 2. In the first phase, the efforts were mainly, but not exclusively, concentrated on collecting relevant references on business angels. This happened in waves, which is to say, that all the information did not become available instantly. Instead, each piece of information was considered in the context of the available framework obtained at the time.

Another relevant aspect was the time devoted to the study of philosophy and social sciences theory, in spite of an extensive array of references (Harrington 2005; Burr 2003; Benton and Craib 2001; Crotty 1998). It was a demanding task.

Finally, the third phase encompassed efforts towards integration of the information collected and in the building up of an essay, which considered both sources of information.

The flow of research regarding business angels and business angel networks came in from four main streams. One originated in the USA, the second from the UK, the third from Scandinavia, and others from the rest of the world: Germany, Singapore, Japan, and Australia. Most of the research, with one or two exceptions, embodies positivistic/realistic approaches.

An examination of the perspectives mentioned above on social sciences philosophy and social research, was my second attempt. This was particularly demanding, as mentioned, since the topics were almost completely new to me. In the end, however, the efforts paid off, because it opened up a new set of perspectives. The approach taken was a two-fold. At first, I tried to understand the main features of each perspective, putting them into context. Then, I tried to analyse some texts of the most representative authors such as: Derrida, Lyotard and Saussure, which proved to be a highly demanding task.

In the end, all the different pieces of information were put together. It is interesting, however, to analyse changes that occurred during this process: my competencies in coping with written English and my skills in information technologies have clearly improved, although there is still room for improvement.

Another line of reasoning has to do specifically with this research. I am now convinced of the importance of participating in one or two of the most important international events regarding business angel activities. This seems an appropriate step in meeting the most important players

in this field. At the same time, I intend to establish a solid relationship with a research centre in this specific area in order to make close contact with researchers involved in this specific area.

Having identified the most influential authors in Europe and the United States of America, I am considering making contact with them to arrange appointments, which could be of high value for the development of this research.

I am considering collaborating with the print media, both local and national newspapers on a monthly basis for a year to analyse the business angel reality in Portugal.

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NOTTINGHAM BUSINESS SCHOOL

DOCUMENT 3

**Comparing and contrasting the development of Business Angel Networks
(BAN) in The United Kingdom and in Portugal**

**Document submitted in part fulfillment of the requirements of The Nottingham Trent
University for the DBA degree**

Student:

Ricardo Nuno Teixeira de Gouveia

N0165583

July 2010

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Note about Documents 1–4

Documents 1–4 are edited versions of the originals submitted on the dates detailed on the frontispiece of each Document.

1. Introduction

This Document starts by considering ontology; after which consideration will be given to the issue of epistemology followed by a short discussion to link these two concepts: ontology and epistemology. A short explanation about the approach followed in this particular Research Document is at the end of this section.

After referring to the theoretical approach, which is important to frame the issues and topics as well as the approach followed in this Document—an interpretative one—a brief overview of business angels' activities in Portugal will follow, which starts by broadly defining business angels and looking at the different networks existing in Portugal.

Further, having framed the expanding nature of the informal investors sector in Portugal, a literature review will follow, as there has been increasing amount of research carried out concerning informal investors in the United States, United Kingdom and Scandinavia, among other geographical areas.

Before detailing the nuances of the conceptual framework, a definition of the research questions and objectives is provided. This is followed by a broad definition of both samples of interviewees, and a discussion of the research methods employed: semi-structured interviews.

The framework elaborated by Karl Weick suggests that the sensemaking process has several properties grounded in: identity construction, retrospective, enactive of sensible environments, social, ongoing, focused on and by extracted clues and, finally driven by plausibility rather than accuracy. Further explanation of each of these concepts is provided below.

Interviews were conducted in Portuguese (the mother language of the interviewer and interviewees). Analysis of the interviews and the conclusions is found in Section 9.

2. Theoretical Aspects

2.1. Ontology

Ontology according to Aristotle is “the part of philosophy whose aim is the study of the more general properties of the being, apart from the infinity of particularities that qualifies it, shadowing his full natures” (*Dicionário Houaiss*: 5917). The *Oxford Reference Dictionary (ORD)* takes a similar line of reasoning stating that ontology “is the branch of the metaphysics dealing with the nature of being” (1989: 588). The same dictionary notes that ontology “is a reflection of the global sense of the being, as that, turns possible the multiple existences” (1989: 588).

From these two definitions, two things become clear: ontology can be seen as a reflection or a study. Hence, the focus of the work is on the ultimate nature of the being. These different definitions of ontology, always mention the notion of “being”, which according to *Houaiss* is “that of which reality is made, the essence” (2005: 7297).

There are several positions regarding the nature of the being. On one side, one finds objectivism, where reality and its meanings remain outside individuals or social actors. Bryman and Bell argue that, “Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors” (2007: 22). At the other end of the spectrum, one finds subjectivism, an ontological position, which believes: “that something exists only when you experience and give it meaning” (Hatch and Cunliffe 2006: 12). Other authors refer to this ontological position as constructionalism, which according to Bryman and Bell is “an ontological position (often referred to as constructivism) which asserts that social phenomena and their meanings are continually being accomplished by social actors” (2007: 23).

The idea of positivism is that “social reality exists externally and that its properties should be measured throughout objective methods” (Easterby-smith et al. 2006: 28). Saunders, Lewis, and Thornhill propose another way of seeing positivism: “If your research philosophy represents the principles of positivism, then you will probably adopt the philosophical stances of the natural scientist” (Saunders et al. 2007: 103).

These are the two extreme views or stances at the ontological level. This Document will now proceed to the epistemological level and unveil the different stances.

2.2. Epistemology

Epistemology is the “theory of the method or grounds of knowledge” (*ORD* 1989: 277), or is “concerned with knowing how you can know” (Hatch and Cunliffe 2006: 13).

From this perspective, several stances are possible. On one hand is the positivist epistemology and, on the other, rests the “anti-positivist or interpretive epistemology” (Hatch and Cunliffe 2006: 13). The positivist epistemology claims that one can discover the reality through the scientific behaviour of people, or advocates the “application of the methods of the natural sciences to the study of the social reality and beyond” (Bryman and Bell 2007: 16). The interpretive epistemology “assumes that the knowledge can only be created and understood from the point of view of the individuals who live and work in a particular culture or organization” (Hatch and Cunliffe 2006: 13).

2.3. Relations between ontology and epistemology

It is clear that the ontological perspective sustained in any research project must be consistent with the way in which the research is conducted. Bryman and Bell write that, “ontological assumptions and commitments will feed into the ways in which research questions are formulated and research carried out” (2007: 25).

If this is the case, what will the epistemological stance be that the researcher has to address, when departing from a subjective ontological stance? In my opinion, interpretivism is the appropriate answer. What is interpretivism? Saunders et al. defined it as “the epistemology that advocates that it is necessary for the researcher to understand differences between humans in our role as social answers” (2007: 106). By using the same line of reasoning, Easterby-Smith, Thorpe, and Lowe add that, “the idea of social constructionism ... focuses on the ways that people make sense of the world especially through sharing their experiences with others via the medium of language.” (2006: 29). Easterby-Smith et al. emphasise the importance of language in the sensemaking process, and accordingly from their perspective, the importance of individuals, metaphorically called “social actors” according to this approach, are perceived to be

constantly involved in exchanges with other social actors, in a never-ending process of social construction of reality.

2.4. The approach followed in this Research Document

Document 3 is a piece of interpretative research. What does this mean? Interpretivism according to Saunders et al. is an “epistemology position that advocates the necessity to understand differences between humans in their role as social actors” (2007: 600). Therefore, the prevailing ontological stance will be that of subjectivism; a position which asserts that entities are created from the perceptions and consequent actions of the social actors” (2007: 600).

The epistemology followed in the current research will be of the interpretive sort to secure compatibility with the underlining ontological position; meaning that there will be a number of interviews with Portuguese business angels. Interviews that Bryman and Bell mention are “probably the most widely employed method in qualitative research” (2007: 472).

The choice of this research method and the preference for interviews and not for focus groups or for ethnography will be subject to discussion below.

The business angel industry is subject to discussion below alongside several answers to questions, among which are: When did this industry emerge in Portugal? Has it experienced a steady growth since its foundation? The ethics of the current research is also addressed in the following section.

2.4.1. Why was the research method used chosen?

The question of why this research method was chosen is an important one. In semi-structured interviews, “The researcher will have a list of themes and questions to be covered, although these may vary from interview to interview” (Saunders et al. 2007: 312). This approach is expected to explain the processes of meaning and sensemaking which are “ongoing intersubjective processes” (Tietze, Cohen and Musson 2007: 13) and which according to Jankowicz provide a “rich ... elicitation which requires you listen properly” (2005: 258).

In the interviews, the researcher will try to identify the intersubjective processes involved in the construction of business angel selves and the identity of the business angel networks (and

clubs). As several individuals were involved in this research, different accounts were produced about the construction of the self of the interviewee, about the construction of the idea of the surge of business angels in Portugal, and a linkage of these two distinct circumstances. The construction of the interviewee's self put some boundaries on the narrative produced about business angels and about their specific clubs.

The details of this Document's construction are outlined in the following sections. The starting point rests on a synthetic account of the emergence and development of the informal venture capital industry in Portugal, which has had two "epiphanies": in 1999 and later, in 2006. Following this is a brief summary of the findings of the research, produced in several geographical locations, about business angels. The research produced so far about informal investors rests on a "realist ontology (an ontology that claims an independent and objective existence for things) is often coupled with a positivistic epistemology (that seeks to explain the behaviour of objects through immutable laws and formulas)" (Gabriel 2008: 95). How useful will this data be in preparing this Document, which is supposed to be an interpretive one? The data will be a necessary resource in the construction of the narrative. In other words, the data itself is not important, but its employment is, as it must be brought into the discourse produced by the different interviewees in a meaningful way.

3. Business Angels in Portugal

In this section, a general description of the business angel industry is given; starting with a broad definition of business angels or informal investors and then elaborating on existing Portuguese business angels clubs (places where business angels gather in search of new and interesting business ventures).

3.1. What is a Business Angel?

Business angels or informal investors are predominantly middle-aged individuals, with private financial resources and extensive business experience who are willing to invest their own financial resources in new business ventures for profit and for a certain length of time. Benjamin and Margulis wrote in their book *Angel Capital* that “angels today are in many ways the same: wealthy individuals and families willing to invest in high-risk deals offered by people they admire and with whom they seek to be associated” (2005: 7). In their book, *Informal Venture Capital*, Mason and Harrison wrote that “informal investors are a heterogeneous group, comprising at one extreme someone who makes one such investment in a lifetime, perhaps to help a friend set up in business, and at the other extreme someone who is continuously on the lookout for investment opportunities and makes frequent investments” (1996: 10). While this definition stresses the frequency of investments, Robert Gaston on the American experience defines a typical American angel as someone that “typically commits \$37,500 equity to each investment. But there are so many angels that their commitments add up to \$32 billion in equity financing each year” (1989: 5).

Informal investors, tend to invest not far from their homes and for a short-term period (Aram 1989). They tend to form investment syndicates with other business angels or even with formal ventures capital funds. Traditionally, business angels tend to invest in the pre-seed and seed-phases of the projects, whereas ventures capital funds tend to invest at later stages.

This has been predominantly a male business. Nevertheless, the number of women has been steadily increasing. Business angels tend to participate in the management of the teams where they have invested.

3.2.1. Business Angel Clubs

As has been noted above, business angels are individuals with private wealth. Why do business angels decide to gather in clubs? What do the clubs do? The informal venture capital market is a somewhat opaque one, in the sense that business angels do not like to expose themselves. However, they have the financial resources that entrepreneurs need in order to develop their own business ventures.

These associations tend to bridge the existing gap between the supply of financial resources (business angels) and the demand for this type of resource (entrepreneurs). How does it operate? Entrepreneurs at the early stage of their business project, when the cash provided by family, friend and foes has run dry, try to get an additional round of equity.¹ Some do the screening as an in-house process, while others outsource this task. Once the business plan is robust enough, a venture pitch is presented to an informal gathering of business angels.

Apart from the screening process, the different clubs undertake sourcing activities. Clubs attend to the sourcing by attending specific seminars and conferences, where they present the business angel concept, and by visiting universities and colleges to meet researchers who want to commercialise a new product, service, or even a concept. The Federação Nacional das Associações de Business Angels (FNABA; National Federation of the Business Angels Association) promotes a Venture Capital and Information Technology conference annually. This conference, held in Lisbon, represents an excellent opportunity for promoting informal investment.

3.2.2. Business Angel Clubs in Portugal

There is a growing number of business angel clubs in Portugal. The first club, Associação Portuguesa de Investidores em “Start Ups” (Portuguese Associations of Investors in “Start-Ups”), was founded in 1999 in Lisbon. After the recession that followed the dot-com crisis in 2000, the industry re-emerged again after 2004.

¹ This is quoted as “the famous four F’s: founders, friends, family, and fools”. See Franz Heukamp, Heinrich Liechtenstein, and Nick Wakeling, IESE working paper 655 (October 2006 2006), available at <http://www.iese.edu/research/pdfs/DI-0655-E.pdf> [last accessed 5 May 2013].

Since 2004, Portugal has seen the founding of an increasing number of clubs. The Associação Portuguesa de Investidores em “Start-Ups” was revitalised. The Invicta Angels, the business angel club in Oporto – the second largest formed in any Portuguese city – started to operate in January 2006. In the same year, Associação Portuguesa de Business Angels (APBA; Portuguese Business Angels Association) began operating in Lisbon, and later, opened a representative office in Oporto. The latest Club started to operate in Santarém, not far from Lisbon, earlier in 2010. A few other clubs are currently under formation throughout the country.

The number of members these clubs have is a difficult question to answer, as it is necessary for the researcher to separate the active members from the passive ones. It is somewhat possible to address the question by visiting the websites of the most representative clubs. The Portuguese Association of Investors in “Start-Ups” refers to having fifty members, whereas the APBA mentions having around eighty members. The websites of the other clubs omit any details regarding the number of members they have.

In 2007, the majority of the existing clubs founded the Federação Nacional das Associações de Business Angels (FNABA; National Federation of Business Angels Associations). The organisation’s intention is to merge all the different clubs founded to date into a single body. In the past, talks between the APBA and FNABA have been unsuccessful.

As seen below in Figure 1, the FNABA² managed to congregate all the existing clubs in Portugal with one exception, so far: APBA.³ This association has opened a representative office in Oporto, the second biggest Portuguese city.

² The FNABA’s website is available at: www.fnaba.org [accessed 5 May 2010].

³ The APBA’s website is available at: www.apba.pt [accessed 5 May 2010].

Non-FNABA Association	FNABA Members
APBA: Associação Portuguesa de Business Angels	Santarem Business Angel Club Business Angels Club Cascais Business Angels Invicta Business Angels Vima Business Angels Associação dos Investidores de Capital de Risco da Covilhã Clube de Business Angels do Alentejo Associação de Business Angels do Algarve Centro Business Angels Open Business Angels

Figure 1: Existing business angel clubs in Portugal.

Both the FNBA and the APBA have relevant international links, as full members of European Business Angels Associations (EBAN).⁴ The FNABA currently holds the Vice-Presidency of this association, and is an honorary member of the board of the World Business Angels Association (WBAA)⁵ formed in Estoril (near Lisbon) in 2007.

Figure 2 shows the geographical distribution of clubs associated with the FNABA. The concentration of the clubs is on the littoral area: the most developed area of the country. The founding of the first clubs was in or near the most important cities of Portugal, that is, Lisbon (the capital city) and Oporto (the second largest city). Afterwards, the phenomenon gained national projection, as other clubs have formed throughout the country, mainly in the littoral.

⁴ EBAN's website is available at: www.eban.org [accessed 29 May 2010].

⁵ WBAA's website is available at: www.wbaa.biz [accessed 1 May 2010].

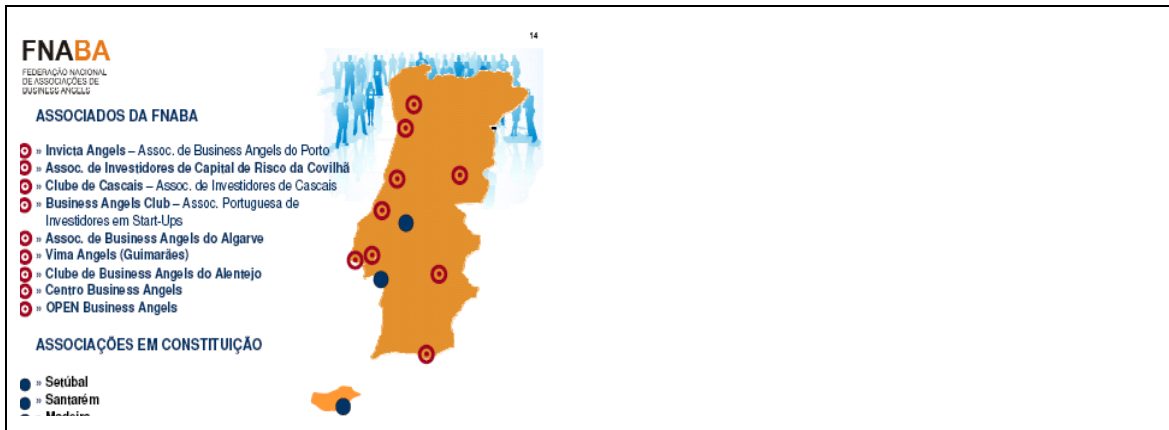


Figure 2: Geographic distribution of business angel clubs.
Source: http://www.fnaba.org/doc/FNABA_apresentacao.pdf.

This industry has experienced two distinct development periods, the first of which occurred in 1999 with the formation of the first business angel club in Portugal, an event that was, at the time, the cover story of a relevant Portuguese business magazine. The second period started around 2004/5, following a rigorous push given by public policies. In fact, since 2006, a number of clubs have started to operate in several locations. Predictions suggest that the current trend will subsist in the near future, as there are public policies in Portugal aimed at developing this emerging industry even further.

Having provided a brief description of the informal venture capital industry in Portugal, a concise literature review will follow below, with emphasis on the analysis concerning the reality in the United Kingdom, where there have been several surveys recently carried out.

4. Literature Review

There has been a growth in academic research focused on business angels since the construction of Document 2 where a number of authors are considered. Table 1 therefore is revised and updated below.

United Kingdom	USA	Scandinavia	Other Geographies
Harrison and Mason (1992)	Wetzel (1987)	Landström (1993)	Brettel (2002)
Harrison and Mason (1996a)	Aram (1989)	Lumme and Mason (1996)	Hindle and Lee (2002)
Harrison and Mason (1996b)	Frear and Wetzel (1990)	Landström (1998)	Hindle and Weban (1999)
Mason and Harrison (1999)	Sohl (1991)	Reitan and Sorheim (2000)	Tashiro (1999)
Mason and Harrison (2000)	Frear et al. (1994)	Politis and Landström (2000)	Duxbury <i>et al</i> (1966)
Harrison and Mason (2000)	Sullivan and Miller (1996)	Sorheim and Landström (2001)	
Harrison and Mason (2002)	Prowse (1998)	Sorheim and Landström (2002)	
Mason and Harrison 2002	Har et al. (1998)	Saetre (2003)	
Mason and Harrison (2002a)	Fenny et al. (1999)	Sorheim (2004)	
Mason and Harrison (2002b)	Prasad et al. (2002)	Erikson (2005)	
Harrison and Mason (2004)	Liper and Sommer (2002)	Sorheim (2005)	
Mason and Stark (2004)	Wiltbank (2005)	Mansson and Landström (2006)	
Harrison and Mason (2007)		Avdeitchikova (2009)	

Table 1: Literature Review.

4.1. Summary of the research produced in different geographies

While some researchers are more inspiring than others many provided useful insights and clues to develop my own questionnaire. Different authors addressed various or similar topics, but in different geographies and contexts. What were these topics? Age, education, business experience, profitability, exit strategies were among them. Below a summary is presented according to topic of the findings, beginning with age and education and ending in profitability. Although the analysis is not exhaustive, it does provide some insights into the types of research undertaken in the United Kingdom, the United States and Scandinavia.

4.1.1. Age and Education

In terms of age, Brettel argues that German business angels are predominantly males and on average forty-eight years of age. A similar age range has been observed both in the United Kingdom and in the United States (Brettel 2002). In Singapore, Hindle and Lee argued that 75 percent of the business angels involved in their research were between forty and fifty-nine years of age and 90 percent of them were male (Hindle and Lee 2002). In Australia, the median age of the business angels interviewed was around forty years of age (Hindle and Wenban 1999).

In Japan, according to Tashiro the average age of business angels is sixty years old; older than their counterparts in Singapore and in Australia, and certainly much older than business angels in the United Kingdom and United States (Tashiro 1999). Tashiro also pointed out that the business angels interviewed were exclusively male and held university degrees.

In Norway, on the contrary, and according to a survey, business angels are typically male “aged between 35 and 55 years of age, with higher education” (Reitan and Sorheim 2000: 133).

4.1.2. Business Experience and Investment Experience

Brettel argues that, on average, German business angels have twelve and a half years management experience and have participated in one or more investment (Brettel 2002). In Singapore 73 percent of the respondents mentioned having had management experience in their “own business” (Hindle and Lee 2002). In Australia, business angels “rated themselves as ‘general managers and ‘people managers’ and most had been involved in several start-ups ventures before” (Hindle and Weban 1999: 173).

In his research, Brettel mentioned that two-thirds of German business angels are involved in corporate management, adding that this figure is compatible with the existing figures for the United Kingdom and the United States, where the percentage is 69 percent (Brettel 2002). Reitan and Sorheim mentioned that Norwegian business angels have “extensive work experience” (2000: 133).

4.1.3. Income

Brettel states that two-thirds of the respondents mentioned having an annual income above €250,000, whereas one-third had an annual income higher than €500,000 (Brettel 2002). In research carried out in Australia, 34 percent of the respondents mentioned having an annual income between \$200,000 and \$299,999 (Hindle and Weban 1999). In Norway, business angels mentioned having an annual gross income of \$76,000. In Japan, the opposite is true: Tashiro mentions an average income among business angels as being equal to \$640,000 or more (Tashiro 1999).

4.1.4. Exit Strategies

In Germany, the preferred strategy is through an Initial Public Offering (IPO) (Brettel 2002). There is no reference whatsoever to exit strategies in the research produced in Singapore or Australia. In Japan, according to Tashiro, IPO is the preferred exit strategy (1999). In Finland, business angels prefer trade sales as an exit strategy (Lumme and Mason 1996).

4.1.5. Psychological Aspects

In a study focused on Canadian business angels, Duxbury, Haines, and Riding argued that, apart from profits, among the other motives for investment, were “achievement, affiliation and involvement” (Duxbury et al. 1996: 53).

The Swedish academic, Landström stated that “the satisfactions of playing an active role in small business” were among the reasons that motivated business angel investment (Landström 1988: 329). In Germany, Brettel concluded that the motivations for business angel investments rest on three fundamental motives: fun, to support young companies, and to attain a high capital growth (Brettel 2002). Tashiro, using a similar line of reasoning, believes that among the most important motives that support business angel investments in Japan were: contributions to the

development of young entrepreneurs and involvement in entrepreneurial business (Tashiro 1999).

4.1.6. Profitability

In a research produced about Finish business angels, the authors Lumme and Mason concluded that the median time was four years, and almost one-third of investors surveyed mentioned having had a positive profitability. One fifth of them stated having experienced an Internal Return Rate (IRR) above or equal to 20 percent in their investments (Lumme and Mason 1996).

Mason and Harrison in the United Kingdom concluded that 34 percent of investors surveyed exited the business with losses; 13 percent left at the break-even stage; and 23 percent experienced IRRs above 50 percent (Mason and Harrison 2002a). In the United States, Wiltbank concluded that two-thirds of investments failed, “while 20% of the exits were over 100%” (Wiltbank 2005: 356), Meaning that a small number of investments (one-fourth) offered impressive returns.

The summary of findings provided by the existing literature leads to construction of the research questions in the following section after which, attention will focus on the choice of the samples.

4.2. The latest research on British Business Angels⁶

Wiltbank’s research on the business angel community in the United Kingdom involved 158 business angels surveyed in late 2008. These informal investors belonged to thirty-one different informal investor groups around the United Kingdom (except for Scotland). The response rate to this questionnaire was 18 percent. The amount invested by all 158 investors was of £134 million in 1080 different business projects.

⁶ See the BBAA’s research on BBAA website at www.bbaa.org.uk. The research produced by Professor Wiltbank is accessible on the website. Please see the same website for the study elaborated below by Professors Colin Mason and Richard Harrison.

4.2.1. Who are they?

One of the most interesting findings of the BBAA research was that in 2000 around 14 percent of early-stage investments were made by informal investors; In 2007, this number had risen to 41 percent, suggesting that formal venture capital companies have not at first been particularly interested in investing in the early stages. The majority of these 158 investors were men with significant business experience. Around 24 percent of the respondents had served in the public sector for some time during their careers.

Most of them have university degrees and more than a half of the respondents had advanced degrees. The investors surveyed were new to angel investments, as typically, they have had less than five years' experience as angel investors. Only 30 percent of the respondents had invested for more than eight years. The angels surveyed had usually invested less than 10 percent of their total net worth. However, 44 percent of informal investors who participated in the research had not invested more than 5 percent of their total net worth.

Co-investment was the norm, although 17 percent of investments were made on a non co-investment basis. Two-thirds of the overall co-investments happened with other angel investors, however, and more than 21 percent of the overall co-investments involved more than ten co-investors.

In another study, presented at the last winter conference of the British Business Angels Association (BBAA), Colin Mason and Richard Harrison concluded that angels invested exclusively in 58 percent of the deals. Two-thirds of the investments involved more than one angel and 20 percent of the investments required the involvement of more than five informal investors.

Angel investment tends to be a local activity with 28 percent of business angels not interested in investing more than 50 km from their own home. However, 43 percent of investors surveyed were prepared to invest within 250 km from home. Surprisingly, 25 percent of the business angels surveyed were prepared to invest abroad.

4.2.2. Angel Investments

According to the BBAA research, the number of business angel investments has reached 1080. The total amount invested is around £134 million. Around 98 percent of the investments made

among the surveyed business angels happened after 1998 and around 70 percent of them occurred between 2005 and 2008.⁷

This BBAA study does not mention in which business phase the investments took place. However, Mason and Harrison concluded that the majority of investments were at the start-up phase of small businesses and that among these, 63 percent had less than five employees.

On average, each business angel participated in six projects. On average, each investment was of £42,000 but 90 percent of the informal investors surveyed invested less than £100,000. In their study, Mason and Harrison reported that the “median investment per angel per BBAA network was £69.3m”. The evidence suggesting that the “median investment per company per BBAA network was £1.83m” (Mason and Harrison BBAA: 48) is interesting: where are business angels investing? According to Mason and Harrison, 55 percent of the investee companies “could be described as technology based”.

In the last twenty-four months, the business angels who participated in this research mentioned that they had reviewed on average around twenty business projects and invested in three new business ventures. However, around 25 percent of the total number represents more than fifty projects in the last twenty-four months, which means around two per month. However, 85 percent of the surveyed business angels made at least one investment in the last year. In another study, Mason and Harrison (2011: 17) concluded that the 8,685 business plans received by networks of the BBAA represented a median of 220 per network. From this number, 824 companies were promoted to gain business angel consideration, which represents around 1 percent of the total. This resulted in 233 investments led by registered business angels, representing around £95.6 million. This is not a uniform number, as four networks represent 44 percent of the investments.⁸

The same study looks at the question of how much angel investors purchase from the company's equity: this shows that on average informal investors buy 8 percent of the targeted

⁷ See note 5 above. The research referred to in this section is available on the BBAA website: http://bbaa.org.uk/library/file/BBAA_Winter_workshop_2010_Powerpoint.pdf [last accessed 3 May 2013].

⁸ See Mason and Harrison (2011) for details of these percentiles extracted from Table 2.2 on page 17. Available at: www.ukbusinessangelsassociations.org.uk [accessed 5 May 2013].

company. However, the research also shows that around 10 percent of angel investors acquire 20 percent or more of the targeted company.

Among the relevant facts is the relation between time devoted to the due diligence and the rate of business failure. The data suggests that devoting more than 20 hours of due diligence reduces “significantly” the risk of failure.

4.2.3. What Returns?

The major finding of this research was that 56 percent of the surveyed investors exited their projects with a loss, most of them even with a total loss. The other 44 percent exited from their business ventures with interesting returns, on average a multiple of the initial investment. In this case, the multiple was around 2.2.

Another interesting finding was that, commonly, returns were not evenly distributed around the means, as 9 percent of the exits produced 80 percent of the returns. In this study, Wiltbank argues that there are similar findings in the United States of America where 10 percent of the exits account for 90 percent of the returns.

Another relevant conclusion from the BBAA research is that “having specific industry experience is significantly related to experiencing fewer failures” (BBAA: 16). The informal investors, by definition, invest for a specific period; they exit the project by selling their shares. On average, these investors stay in the project for 3.6 years. It is interesting to note, however, that when the exit occurred at a loss, the time of permanence in the project is shorter: 3.2 years; when the exit occurred with gains the investors tended to remain in the project longer: 8 years, on average.

4.2.4. Concluding Remarks

Section 4 of this Document has shown that there are significant differences in the characteristics of investments of informal investors in The United Kingdom and abroad. The flow of research is a continuous process as more data from different surveys is released continuously. This information will be useful in the next stages; employed to construct the themes and topics for the semi-structured interviews. Therefore, the research data—made up of realist ontology and compatible epistemology—will be useful as raw material for an interpretative approach. What

will the process involve? The following sections will detail the different stages of this process; starting with a broad definition of the research objectives and research questions to be addressed; and then an overview of the methods to be used and the sample that will be selected will follow.

5. Research Questions

Each semi-structured interview will produce a story: these stories are “narratives with simple but resonant plots and characters” (Tietze et al. 2007: 56). Each narrative will encompass the different topics and themes addressed. Therefore, and using the framework developed by Karl Weick, the different narratives will be analysed to assess whether the various aspects were present in the individual discourses and how they melded together.

In one way or another, all the interviewees were involved in the creation of the business angel industry in Portugal. They have helped to develop this new reality in that they have contributed to the social construction of this reality (Berger and Luckmann 1966). The social process led to the creation of the reality: business angels have embedded a sensemaking process for which Karl Weick has developed a comprehensive analytical framework.

As this is an interpretive Document, a narrative has evolved in response to the topics and themes that the previous sections identified, among which are:

- The history of the club;
- The profiles of the business angels or clubs;
- The profiles of the investments;
- The sourcing and screening processes that prevail in the club.

It is notorious that within the business angel community there are experienced as well as inexperienced investors. Some of these investors are young and others are older. Document 4 details these facts. There are business angels who have had investment experience and those that still, for one reason or another, have not yet made any investments. In the current Document, interviewees are all members of business clubs with investment experience.

Actually, investing is not the primary occupation of business angels. For most of them, it is a secondary occupation. Document 4 details the time periods informal investors devote to business angel activities on a weekly basis.

The aim of the current Document is to understand how interviewees make sense of their business angel activities rather than actually bring more knowledge about these activities into

the frame, as this is an interpretative Document. To do this, each interviewee will use language to build his/her own narrative, which will articulate the different topics. Moreover, each interviewee will be linked by use of linguistic artefacts that the researcher will try to unveil.

The aims of the current research is to ask the interviewees to produce a story where these fragments of reality, such as the history of the club, profile of the investors and profile of the investments, will be present. The narratives are not constructed in a linear way, because of the different topics that will be introduced, smoothly, throughout the conversation—which is a mediated process—means that the story will be re-written to accommodate the different new elements that will be presented.

6. The Research Methods

At this point, and considering the aims of this research, several questions come to mind. Should the researcher invite experienced business angels with investment experience alone? What about potential business angels, are they able to express an opinion? As having different perspectives enriches the document, bringing a “holistic” approach into it, the decision was to invite a number of Portuguese business angels with investment experience who were involved in the development of this industry in Portugal.

The sample was also heterogeneous in terms of the geographic locations of the informal investors, who lived in different regions of Portugal. Moreover, there were many differences in terms of age and business experiences. The researcher believed that a spectrum of interviewees was seminal to the research, as all the different actors would have different perspectives on the industry. Being a small but highly diversified group in terms of age, business experience, as well as investment experience was of crucial importance. Some of the selected business angels have or had had responsibilities as part of the leading team of several business angel clubs.

All the semi-structured interviews, scheduled in advance, will take place at the interviewee’s offices. As the interviewer proposes to raise several themes/topics during the interviews, the interviewer will have to minimise the interruptions. In the preparation of the interviews, a guide has been prepared. Bryman and Burgess note that the questions the researcher proposes to ask interviewees on specific topics are often referred to “as an *interview guide*” (2007: 474).

The researcher explained to the interviewees before the interviews the nature of the research project, so the questions or themes addressed during the interviews are therefore in line with the researcher’s initial explanation of the purposes of the research. The interviews were flexible; the interviewer was keen to accommodate any new issues that were raised during the interviews.

The researcher did not reveal the themes and topics of the interviews in advance. The interviews, conducted in Portuguese, will not normally take more than forty minutes to complete and certainly less than an hour. All interviews will be tape recorded, with the full consent of the interviewees, and then transcribed and analysed. The interviews will focus on four different aspects of the business angel realities: profile of business angels, investment profile, the screening and the sourcing processes and finally the history of the business angels.

Within the business angel profile, several topics will be raised: age, education, management experience, and motivational factors that have triggered their investments.

Regarding the investment profile a number of themes shall be mentioned such as: average amount invested, geographical location of the investments, duration of the investments, the sectors, and also the exit strategies used.

Screening, the technical assessment process for the consideration of entrepreneur's business plans is a very demanding aspect, both for the clubs and for the entrepreneurs as it involves several iterations. The screening process comes before the venture-pitch session, which is the occasion when the entrepreneurs present their business-plans to an audience of business angels.

Why ask all these different questions? Because each of these questions or topics has a number of signifiers and signified that are associated to the each word. The aim of the research is to study meaningfully who the different individuals are and how they are linked.

7. The Sample

At this point, and bearing in mind the aim of this research, several questions spring to mind as mentioned above: should the interviewees be exclusively experienced business angels with investment experience? But what about potential business angels?

Approaching these already targeted figures was not easy, as they tended to be unavailable. The process took much more time than previously anticipated. Three experienced business angels were invited to cooperate in this research project; from these three, one did not want to participate at this stage. However, I am confident that this specific angel investor will become more cooperative later in this research.

For this Document, two Portuguese informal investors agreed to participate. The characteristics of the targeted business angels were the following.

Portugal	The United Kingdom
Experienced business angels	
Responsibilities for the development of specific business angel clubs	

Table 2: Characteristics of the interviewees in Document 3.

For the current draft, two Portuguese informal investors were invited to participate in the research and accepted the invitation. Clearly, however, the number of interviewees was less than the number aimed at for Document 3. At this stage, only Portuguese business angels were invited to participate.

For Document 5, the number of interviews will include business angels from Portugal and the United Kingdom, as Table 3 illustrates. The aim is to gain access to a wider variety of narratives about the business angel industry.

Portugal	The United Kingdom
Experienced business angels	Experienced business angels
Directors of Business Angels Clubs (BANs)	Journalist specialised in angel investments
Venture Capital (VC) Managers with co-investment experience with business angels	

Table 3: Characteristics of the interviewees in Document 5.

In Portugal, the aim is to interview both experienced informal investors as well as potential business angels from different geographical areas and pertaining to different clubs.

Additionally, directors of different Business Angels Networks (BANs) will be invited to participate in this research, together with managers of formal venture capital companies with co-investment experience with business angels, as it is important to have different points of view about this reality.

In the United Kingdom, a journalist specialised in the business angel industry has demonstrated her willingness to be interviewed. A number of British business angels will be contacted to participate in this research process. Why should British informal investors be involved in this research? The United Kingdom has a well-developed market of informal investment, while Portugal's business angel industry, on the other hand, is still in early infancy. Will British business angels be willing to participate in this research project? Apparently, the going may be tough as over the past few years informal investors have been invited to participate in several surveys and other research projects. However, it is definitely worth a try, since the process used in the current research is rather different from the previous studies that have relied heavily on questionnaires.

8. Conceptual Framework

What is the goal of this research? In short, it aims to apply the concept developed by Karl Weick, to the different interviews conducted in Portugal with several business angels, with relevant positions in the business angel networks.

The process will start by doing a number of individual interviews with business angels who have had a crucial role in the development of the business angels in Portugal. For obvious reasons, interviewees will remain anonymous. A relevant Portuguese business angel declined to participate in this project when contacted. A number of themes and topics will be raised as detailed in Section 6 of the current document; Figure 3 illustrates these. The narratives produced are to undergo analyses using the sensemaking framework developed by Weick. This author suggests that the sensemaking process has seven different characteristics grounded in: identity construction, retrospective, enact in sensible environments, social, ongoing, focused and extracted by clues and, finally, driven by plausibility rather than accuracy.

Figure 3 identifies the four topics that will be addressed during the semi-structured interviews. The role of the interviewer is one where the interviewer shall: “keep quite without interjecting your own stories into the narrative ... be sensitive to non-verbal signals ... hear the emotions and feelings expressed by your informant, as well as words” (Jankowicz 2005: 258). Through the exercise of good practice, one would be able to extract the full richness of the different narratives.

This will be done using the conceptual framework Weick developed to analyse the sensemaking process; which in turn will be employed to analyse the different narratives produced by the interviewees, in order to extract fragments associated to the presence of some or all the seven distinct characteristics Weick mentions in his work.

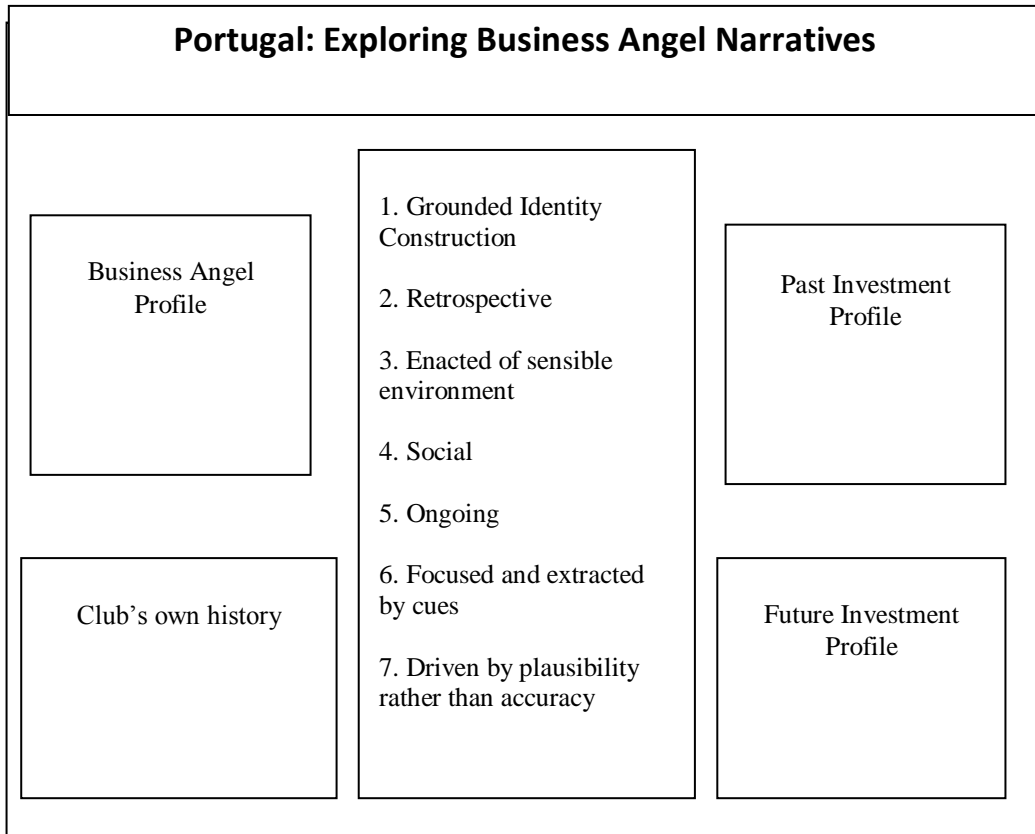


Figure 3: Conceptual framework.

The current Document will analyse the transcripts of the different interviews and detect what the topics and themes are that emerge from the narratives. Tietze et al. argue that, “there is no accepted definition of a *story* or *narrative*.” (Tietze et al. 2007: 56), suggesting therefore that these two concepts: story and narrative, might be used interchangeably.

The detection and identification of the topics and issues that emerge from the narratives, consisting the transcripts from the semi-structured interviews, will be done through a coding process that will be processed in each of the transcripts. These will contribute to helping the themes and issues surface, and subsequently, if possible, the aggregation of groups.

Two business angels interviewed pertain to the elite of the different clubs. As pointed out earlier, narratives, stories and metaphors, “figures of style” according to Tietze et al. (2007: 34), might be useful to understand organizations and the sensemaking process. What is sensemaking? Clegg, Kronberger, and Pitsis compare the sensemaking process to driving, “as you drive you interpret and try to make sense of the other road users’ and pedestrians’ intentions” (Clegg et al. 2008: 18). Weick argues that sensemaking is “about such things as

placement of items into frameworks, comprehending, redressing, surprise, constructing meaning and interacting in pursuit of mutual understanding and patterning” (Weick 1995:6).

All of this should be understandable by use of language as a basic tool to meaning making. Saussure was among the first to suggest that people communicate through use of symbols. The basic tool is the sign, which has attached to it a signifier and a signified. (Tietze et al. 2007: 20). Another relevant issue is the fact that a sign does not only appear in language but also in other cultural texts (Tietze et al. 2007: 22).

Weick, while citing Pablo Neruda, argues that each one of us has several selves (Weick 1995). For each self there is one “out there”. During a conversation, one may change the self and, therefore, the existing “out there” changes also. Clegg et al. puts it a different way: “a person’s or group’s sense of who they are is important in sensemaking” (2008: 23). The different prevailing selves (if any) will be identified while analyzing the transcripts, and accordingly, so will changes in the narratives.

This is part of the sensemaking process, according to Weick, has several characteristics, seven to be precise. Apart from identity construction (Weick 1995:18), which Clegg et al. argue as being personal identity (2008: 23), the sensemaking process tends to be retrospective, meaning that present actions only make sense when related to the past. Weick puts it this way, “to learn what I think, I look back over what I said earlier” (Weick 1995: 61). Clegg et al. adds to this property by writing, “sensemaking is influenced by what people notice in elapsed events, how far back they look, and how well they remember the past” (Clegg et al. 2008: 23).

It is an enactment in a sensible environment, that is, while focused on the past the sensemaking process has an associated element of action. As Weick argues, “I create the object to be seen and inspected when I say or do something (1995: 61). Clegg et al. assert that enactment suggests that, “actions can modify that which is being observed” (2008: 23), and the authors continue with an example: “something seems to be overheating and you take steps to cool it” (2008: 23).

Weick continues by suggesting that the sensemaking process is also social, since it is based on interaction with others. Clegg et al. puts it in a slightly different way “sensemaking is influenced by the actual, implied, or imagined, presence of others” (2008: 23), and as it is ongoing, the process never starts and never ends or as Clegg et al. put it: “stuff is always happening” (2008: 23).

Weick argues that, in this process, plausibility and sufficiency take precedence over accuracy. Clegg et al. propose that, “to make sense is to answer the question, ‘What’s the story here?’ Sensemaking is about creating meaning that is sufficient to carry on with current projects” (2008: 23).

About clues, Clegg et al. propose, “Managers will use sketches of what is going on and who is who in making sense, which they have derived from past experiences; thus they project their past on the future” (2008: 23). Concerning the same topic, Weick states that, “extracted clues are simple familiar structures ... from which people develop a larger sense of what may be occurring” (1995: 50).

Having detailed the characteristics embedded in Weick’s framework while referring to the themes and topics both interviews will address, the following section analyses the transcripts of Interview A and Interview B.

9. The Interviews

As previously mentioned, out of three contacts, two interviews were scheduled with business angels with investment experience in Portugal. These investors hold a leading position in two of the most relevant business angel clubs in Portugal.

Both of the informal venture capitalists are middle-aged males with university educations; one of the individuals has had significant experience as an entrepreneur before becoming a business angel, and simultaneously, is the managing director of one of the clubs. Being an informal venture capitalist was not the main occupation of either interviewee. One interviewee mentioned this fact explicitly during interview.

Both interviewees were confident about the development of venture capitalism in Portugal and saw themselves, though not mentioning explicitly, as pivotal figures in this industry.

Both interviewees were interesting, as both individuals were among the “founding fathers” of the informal venture capital industry in Portugal, which means that they have helped to socially construct this phenomenon out of nothing.

Needless to say, this social construction of reality involves several phases. A social construct is “the process in societal and historical contexts whereby people give meaning to the world through cultural interaction” (Gabriel 2008: 270). Berger and Luckmann identified three distinct but complimentary processes that build social construction: externalization which “occurs when people act on the world and create an object” (Gabriel 2008: 270); objectification which happens when “this way of acting becomes widely talked about ... and thus socially taken for granted as ‘normal’” (Gabriel 2008: 270); and finally, internalization which “takes place when the new generation learn about this practice as something that simply exists” (Gabriel 2008: 270).

In this case, these two informal venture capitalists have actively participated in the externalization phase in 2006 and are now involved in the next phases.

9.1. Analysis of Interview A

The appointment was scheduled in advance: the informal investor arrived on time at the meeting point, driving his new and powerful car. He is a young man, with a university degree. This is the third time we had met; he has been very cooperative and seems genuinely enthusiastic about informal investment in Portugal.

He exudes confidence although he is also calm and reflexive. He does not give quick answers as he carefully chooses the most appropriate words to use. Though not being expansive, he is not shy. Understandably, he did not give many details about his own investments, but showed a genuine interest in the research project underway, offering his help if needed.

A national reference in the Portuguese business angel community, he started constructing his own career as an entrepreneur and then became an informal investor, while becoming a “founding father” of the informal investors industry in Portugal.

He produced a calm and well-crafted narrative. What was interesting, though, was that he was willing to talk extensively about the past, but almost refused to participate in any discussion about the future. The interview took almost an hour. Afterwards we continued talking for a while. Since then we have met at several specific occasions: seminars that have taken place in Lisbon.

The transcript of this interview is in the Appendix. This narrative is going to be analysed using Weick’s conceptual framework. The reason for this is that the objective is to understand how this interviewee constructs his own story in a meaningful way, and simultaneously to identify how the different characteristics postulated by Weick’s work emerge from the narrative.

9.1.1. Who do I want you to believe I am? (Identity-construction)

He starts his own account by referring to the dynamism of demand and supply. In this case, the demand for money from entrepreneurs: entrepreneurs seek finance when contacting the business angel club and, on the other hand, the informal investors are interested in financing good business opportunities expecting, in return, generous return benefits.

The discourse started by mentioning the entrepreneurs and afterwards the business angels. Why did this happen? In my opinion, because there are no business angels without entrepreneurs and,

on the other hand, because previous to being a business angel this interviewee was a successful entrepreneur. It might be that the interviewee followed a historic pattern and applied the same framework to his personal life. The narrative began like this:

<i>“O clube nasce de duas vias” (linha 4)</i>	<i>“The club was born in two ways” (line 4)</i>
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Table 4: Interview A–identity-construction account 1.

The discourse was kept very simple without much detail. The usage of the verb “to be born,” stresses what lies previous to this epiphany: to be born is to remain unknown or unknowable.

The verb to be born implies the existence of parents. In this situation, metaphorically speaking, the interviewee identifies both demand and supply; specifically each means that one of the parents is the entrepreneur (demand) and the other corresponds to the business angel (supply), but each one begs for a counterpart.

The storyteller places himself as part of the story, as some sort of central figure that brought together these two forces: demand and supply. These three actors are responsible for the conception of the club.

The narrative constructs a story whereas the individual (the storyteller) places himself as a pivotal figure, promoting the coupling either collectively or individually and as the cornerstone of the supply and demand.

<i>“Juntando a apetência das pessoas com a existência de projectos, juntou-se as duas coisas e criou-se o club” (linha 4)</i>	<i>“Putting together the eagerness of the people and the existence of projects, these two things were put together and the club was created” (line 4)</i>
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Table 5: Interview A–identity-construction account 2.

Together with this construction of a self that voices himself as a manager, later in the interview the interviewee unveils another self, that of the entrepreneur. He mentions that he was one of the “founding fathers” of a technology company. Later the interviewee sold his shares in that venture.

<i>“O meu caso, fui um dos membros do núcleo duro [nome da companhia] e vendi a minha participação” (linha20)</i>	<i>“In my case, I was one of the founding fathers [name of the company] and I sold my shares” (line 20)</i>
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Table 6: Interview A–identity-construction account 3.

Two distinct voices emerge from the discourse: the first, and central in this narrative, is the voice of a manager. Embedded in the plot is the entrepreneur’s voice, which tends to support the central voice.

From these different fragments, the past emerges as a dominant characteristic. Why this connection with the past, or is it just a coincidence?

9.1.2. Where do I look? (Retrospective)

The account is definitely retrospective. What does retrospective mean according to Weick’s work? The author starts by saying that being retrospective is perhaps “the most distinguished characteristic of the present conceptualization” (1995: 24).

The verb used to announce the birth of the club is “to create”. Two forces came together and the club was created. In an almost poetic style, he announces the foundations of the club. Then the author continues retrospectively:

<i>“Criado em 2006” (linha 8)</i>	<i>“Created [the club] in 2006” (line 8)</i>
<i>“20 associados” (linha 12)</i>	<i>“20 associated members” (line 12)</i>
<i>“São pessoas que eram empresárias” (linha 20)</i>	<i>“They were entrepreneurs” (line 20)</i>
<i>“São 6 projectos já apoiados” (linha 24)</i>	<i>“6 projects have been supported [by the business angels]” (line 24)</i>

Table 7: Interview A–retrospective account 1.

Following a direct question, the interviewee states that the club was founded in 2006. Immediately after, the interviewee adds a story about the “founding fathers” business experiences. In this case, there is a confluence of several of the characteristics mentioned by Weick, namely: social, ongoing and retrospective; each one reinforcing the other as elements of a narrative.

After the storytelling, the author specifies the date. Afterwards he mentions the number of associated members at the foundation date and the current number of associated members (the

number has doubled). However, when the interviewee was asked to talk about the future, the response was:

<i>“Não queria mexer muito no futuro” (line 78)</i>	<i>“I don’t want to touch on the future” (line 78)</i>
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Table 8: Interview A–retrospective account 2.

Most of the time, the author travelled through the past constructing his own narrative. The answer given in Table 8 does not leave much space for further questions about the club’s future. The interviewee’s focus on storytelling about the past is in order to legitimise the present.

Can we conclude that the narrative ran from the past to the present? The next section will help to answer the question.

9.1.3. Where is the beginning and the end? (Ongoing)

Weick defines another characteristic known as “ongoing” in a peculiar way: “sensemaking never starts. The reason it never starts is that ‘pure duration never stops’” (1995: 42).

The narrative produced by this informal investor (and simultaneously director of a business angel club) is eloquent: he assumes a historical chronological approach. The departing point is the date the interview took place. Then he embarks on a journey that eventually drives him to the present date. Why does this happen? According to Weick, it has to do with the “need to discover what is occurring” (1995: 55). In every account, there are relations between investors and entrepreneurs, management requirements and interventions, sourcing and screening.

The author goes from the beginning adding elements to his own narrative. The questions asked produced additional bites of information, or realities, which fed into the narrative in a way that reinforced its internal consistency.

It seems that this ongoing process was punctuated by contacts between different figures: business angels, entrepreneurs. Why is that?

9.1.4. Interaction with Who? (Social)

Another interesting issue is the fact that the account is social in the sense that “Those who forget sensemaking in a social process miss a constant substrate that shapes interpretations and interpreting” (Weick 1995: 39). The author gives huge importance to the characteristic of the social, defining it as: “What I say and single out and conclude are determined by who socialised me and how I was socialised, as well as by the audience I anticipate will audit the conclusion I reach” (1995: 62).

The process is social at several levels. There is a personal account, together with an account of different individuals in the process.

<i>“Existem um conjunto de pessoas” (linha 4)</i>	<i>“There is a group of people” (line 4)</i>
<i>“São pessoas que tinham empresas” (linha 20)</i>	<i>“These are people that owned companies” (line 20)</i>
<i>“Nós arranjamos os investidores” (linha 24)</i>	<i>“We manage to find the investors” (line 24)</i>

Table 9: Interview A–social account 1.

Another relevant topic is the account of the interactions between supply and demand, in which is embedded a social element.

<i>“Neste momento são seis os projectos que já foram apoiados pelo clube.” (linha 24)</i>	<i>“In this moment there are six projects being supported by the club.” (line 24)</i>
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Table 10: Interview A–social account 2.

Later, there is another reference to the social aspects when the interviewee details the difference between two types of business angel clubs and their relations with entrepreneurs.

<i>“Existem dois tipos de business angels: os clubes que têm o reporte a uma entidade que analisa que escrutina que reúnem com os empreendedores e preparam o business case para o clube de investidores e ... Ou os clubes que não têm essa entidade que tem têm de ser os business angels a fazer esse escrutínio.” (linha 40)</i>	<i>“There are two types of business angel clubs; those clubs that gave the report to an agency that analyses [the business plan] and meets with the entrepreneurs and prepares the business case to the investors club. ... Or the clubs that do not have such capability and the business angel will have to do this assessment.” (line 40)</i>
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Table 11: Interview A–social account 3.

In this narrative, there are several interesting elements, including that the point of view is from the supply side: from the informal investors, those with financial resources essential to the development of projects. What the previous passage means is that there are several forms or organizing, which is a social characteristic, and from them, to address the entrepreneurs which is another form of social aspect in the narrative.

Another element – which in essence is also social – is the screening process. Who assesses the business plan presented by the entrepreneurs? What type of answers do they receive? Additionally the sourcing mechanism – by which business angels demonstrate willingness to

discuss and review new business plans – is also a socially mediated process, in which some clubs might be embedded. Is it possible?

9.1.5. Focused on and extracted by clues

The author starts the conversation in the present and goes to the past. As he drives into the past, he focuses on some aspects of the conversation or situation and does not mentions others.

<i>“São pessoas que tinham empresas ...” (linha 20)</i>	<i>“They are people that owned companies ...” (line 20)</i>
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Table 12: Interview A–clues account 1.

A statement such as the one above implies that the individual is not only dynamic but also someone with financial resources, contacts and experience, and one who has enjoyed success. Immediately after, the interviewee gave some examples. By doing this, one can conclude that the clubs are made up of influential people with whom the interviewee is acquainted. This also signifies that he has access to these powerful figures. These entrepreneurs highly regarded these business angels.

On the other hand, by doing this, the interviewee roughly defines the profile of the business angels or justifies the profile of the current “stock of business angels” he has to manage in his club.

What these pieces of narrative extracted from the interviews imply is the fact that the profiles of the business angels come as the representations of the average informal investors of this specific club. These individuals are presented as powerful, dynamic figures, that is, they were like this in the past and they will remain with the same characteristics and vigour in the future.

These clues lead us to another topic. Is this narrative accurate or just plausible?

9.1.6. Plausibility rather than accuracy

The criterion of accuracy is secondary to plausibility, as Weick notes, “Accuracy is nice but not necessary”; he goes on to say that, “Sensemaking is about plausibility, coherence, reasonableness, creation, invention, and instrumentality” (1995: 57).

Is the narrative produced plausible? The discourse looks to the past in order to justify, according to Weick, and explain future actions.

The process started by matching supply for financial resources with demand. This is because it is assumed that all the individuals want to make money. Is this explanation accurate? We do not know for sure. But it doesn't matter since it is better to be plausible than accurate.

According to the interviewee, formation of the club was almost by a spontaneous generation. Is this an accurate account of the process that led to the formation of the club? The answer is probably no. Is it a plausible account? Yes. If there is a demand and supply of financial resources in a small village, one can easily see that a meeting point would need to exist, a club or an association, where these two opposite forces with a common goal, can come together.

Business angels who wanted to make investments formed and then led the club. These actions – investments – confront the leader: firstly, the one that enacts with the need to discover what is occurring and, secondly, that which needs explanation.

To address these two topics the interviewee started in a retrospective narrative, beginning in the past and finishing in the present. Does this account need to be plausible? Yes, it does. Does it need to be accurate at the same time? No, it does not, because, as Weick pointed out: “sufficiency and plausibility take precedence over accuracy”.

Plausibility is anchored in objects that were created during the narrative. What is an object according to Weick?

9.1.7. Which object did I create? (Enactment)

According to Weick to enact is “to create the object to be seen and inspected when I say or do something” (1995: 61).

The author – at the time the interview took place– was and still is the leader of a business angel club. Therefore, he is accustomed to taking action. Whatever these actions are, they necessarily produce outcomes in a specific social context.

What objects were created? The club was the first object to be created; having been created is it possible, as Weick suggests to inspect the object of the club? When was it created? What was the purpose? How many people were involved at the beginning? These are some of the questions arising from the inspection of this object.

Another object was created during this narrative: the investment that was made. Once created, it is possible to inspect it. How many investments were made? How much money was invested on average, per investment?

Several other objects were created throughout the narrative: the sourcing and the screening are among them. The informal gatherings of informal investors can also be considered objects according to Weick.

During the interview, I attempted to get the interviewee to create another object, which is the future. However, the business angel denied that the offer. Therefore, I was unable to inspect it.

In the last few pages, attention was devoted to analyzing the interview concerning the leader of a business angel club. The concluding remarks will be followed by analysis of the second interview.

9.1.8. Conclusion: Interviewee A

The club, formed in 2006, had in the beginning almost twenty members, while when the interview took place, it had around forty elements in a universe in which there were two distinct segments: the older investors and the younger ones. The average age is around fifty years old, according to the interviewee. The aim of the club according to this informal investor is to have no more than sixty to seventy investors. All but one of the investors is male.

A distinct characteristic, of some investors of this club is that they used to be entrepreneurs that sold their companies prior to becoming business angels. They had time, business experience, and the required financial resources to become business angels.

The club had already committed to six investments by the date of the interview. It has concentrated its investments in tourism and in the leisure sector, although not exclusively.

This club is not particularly involved in the sourcing process as it is dependent on a third entity: one that introduces the projects to the angel club. This means that the entrepreneurs present the business plan to this third party if they wish to do so. The third party therefore can be either a formal venture capital company or, alternatively, an informal venture capital company, either of which may act as a business partner.

The screening process is performed outside the informal investor club, which only organises the venture-pitch. So far, it has already organised six sessions. It is a session where the “business plans” are presented to an audience of business angels. Each entrepreneur has a limited period to present his or her own project.

Having completed the analysis of the first interview, the exercise will continue with analysis of the second interview: Interview B.

9.2. Analysis of Interview B

The interview was scheduled without too much ado with the help of a common friend. It did not take many emails to find a mutually suitable date and the interview venue was confirmed to take place in Lisbon.

Before starting the interview, the research project was described in brief to be about the Portuguese informal investors or business angels in comparison with findings about the British business angel community. At the end of this phase, I asked for permission to record the interview.

The conversation started in a polite way, though being very formal. I assume it was a defensive mechanism. As the interview progressed, to almost sixty minutes, the atmosphere became much more relaxed.

The interviewee is not an informal investor full time, although he is a central figure in the business angel industry in Portugal. Despite the fact that he does not have the same media coverage as other business angels, he does have equal responsibilities for managing clubs. He rarely uses the pronoun “I”; instead he uses “we”, which signifies that he sees himself as part of a team.

The narrative emphasises the importance he puts on the expansion process. This is a two-fold process as he stressed two different aspects: the number of members and the expansion of the links and connections necessary to have good sourcing. Unlike other clubs, this club aims to have national coverage, promoting the opening of delegations throughout the country.

The transcript of this interview is in the Appendix; it will be analysed below using Weick’s conceptual framework as discussed in the previous sections. This approach has seven levels of analysis as mentioned before.

9.2.1. Who do I want you to believe I am? (Identity-construction)

At an individual level, as Gabriel noted, “identity refers to a person’s comprehension of him- or herself as a discrete entity (a self)” (2008: 136). Does this interviewee have one self or, instead, various selves? It is hard to say, but he did show two distinct identities, two selves clearly emerged during the interview: the business angel and the manager.

As a manager, he stressed several aspects such as expansion, networking, and sense of urgency.

<i>“Queríamos ter uma abrangência nacional” (linha 5)</i>	<i>“We wanted to have national coverage” (line 5)</i>
<i>“Associados individuais e institucionais” (linha 5)</i>	<i>“Individual members and institutional members” (line 5)</i>
<i>“Estrela de redes” (linha 5)</i>	<i>“A star of networks” (line 5)</i>
<i>“Estamos a falar com ...” (linha 7)</i>	<i>“We are talking with ...” (line7)</i>
<i>“Uma reunião com empresários de ...” (linha 14)</i>	<i>“A meeting with business people from ...” (line 14)</i>

Table 13: Interview B–identity-construction account 1.

He is trying to construct his identity throughout this dialog with the interviewer; as Watson points out, “identity construction is always emergent” (2003:59). The focus is on external factors. The interviewee is focused on strengthening the distribution channel and therefore the external visibility of the club.

On the other hand, the informal investor who had agreed to the interview, did not spend much time talking about the internal aspects of the association, although he did mention with a confident tone, that the “adhesion” has been massive to this project. Not only had the number of

members grown significantly, but also during the same period, an unexpectedly high number of business plans had been sent to the club for assessment.

Furthermore, the process of identity construction as business angels of this expanding club is not linear once it was involved in a socially mediated process with the interviewer:

<i>“Que querem fazer investimentos” (linha 5)</i>	<i>Want to make investments (line 5)</i>
<i>“Perfil discreto” (linha 1)</i>	<i>“Low profile” (line 1)</i>
<i>“Faixa etária média” (linha 19)</i>	<i>“Middle-aged individuals” (line 19)</i>

Table 14: Interview B–identity-construction account 2.

Sometimes, when confronted with specific questions, the informal investor voiced his difficulty in answering some of them.

<i>“Tenho um bocado de dificuldade em responder a sua pergunta” (linha 35)</i>	<i>“I have some difficulty, in answering your question” (line 35)</i>
<i>“Nós também não temos experiência” (linha 37)</i>	<i>“We don’t have enough experience” (line 37)</i>

Table 15: Interview B–identity-construction account 3.

During the interview, the business angel – through a mediated process with the interviewer – has shown several selves as well as several voices. Throughout the narrative, several objects were crafted and embedded in the discourse; what kind of objects were these?

9.2.2. Which objects did I create? (Enactment)

By enactment, Weick refers to the individual creating “the objects to be seen and inspected when I say or do something” (1995: 61). With this, Weick implies that an action is a precondition to sensemaking. There is no sensemaking before action. The following extract, which is not an exhaustive one, of the narrative contains enactment elements.

<i>“Redes” (linha 5)</i>	<i>“Networks” (line 5)</i>
<i>“Redes associadas” (linha 5)</i>	<i>“Associated networks” (line 5)</i>
<i>“Estrela de redes” (linha 5)</i>	<i>“Star of networks” (line 5)</i>
<i>“Screening” (linha 1)</i>	<i>“Screening” (line 1)</i>
<i>“Sourcing” (linha 1)</i>	<i>“Sourcing” (line 1)</i>
<i>“Jantares informais” (linha 41)</i>	<i>“Informal dinners” (line 41)</i>
<i>“Reuniões” (linha 14)</i>	<i>“Meetings” (line 14)</i>

Table 16: Interview B–enactment account 1.

In this narrative, which involves “temporal chains of interrelated events or actions undertaken by characters” as suggested by Gabriel (2008: 194), the words: network, sourcing, screening, dinners, meetings, all mean action involving others: either business angels, entrepreneurs, or both.

All these “makings” – all these actions or enactments – beg for “sense” of making, but how can sensemaking possibly be achieved? Each word has a signifier as well as a signified associated with it (Tietze et al. 2007), which therefore connect with each other, and with other words in an always-changing web of meaning.

All these objects were mentioned as originating in the past, but why? Because these objects were mentioned in the interview, meaning that they already existed, which means that they had already been created to be “inspected” (Weick 1995). The pre-existence of the object, which is a condition Weick anticipated and incorporated into his conceptual framework, somehow links to other characteristics of the sensemaking process such as, retrospection. How do we integrate these different actions and objects? Networks link implicitly, entrepreneurs and business angels. A star of networks gives profundity and amplitude to the concept of the framework, in a word,

leverage sourcing. Good sourcing means more business plans, which will have to come under scrutiny during the screening phase, before presentation to the business angels.

9.2.3. Where do I look? (Retrospective)

This relevant characteristic of sensemaking is abundantly present in this narrative. Weick noted that the retrospective was “to capture the reality that people can know what they are doing after they have done it” (1995: 24). The fragments below represent examples of the retrospective characteristic linked to the “voice” of the manager, one of the selves emerging from the narrative.

<i>“Existimos há cerca de um ano e meio” (linha 25)</i>	<i>“We have existed for almost a year” (line 25)</i>
<i>“Fizemos em 3 investimentos” (linha 25)</i>	<i>“We have made 3 investments [so far]” (line 25)</i>
<i>“Analisámos 80 projectos” (linha 25)</i>	<i>“We have analysed 80 projects [so far]” (line 25)</i>
<i>“Criámos uma delegação” (linha 7)</i>	<i>“We created a delegation” (line 7)</i>

Table 17: Interview B–retrospective account 1.

This account is clearly a retrospective one, but at the same time, it has some enactment elements to it, linking the present and the past in a meaningful way and, at the same time, generating “the feeling of order, clarity, and rationality is an important goal of sensemaking” (Weick 1995: 29).

Later in the interview, the business angel linked his business angel experience to a past event.

<i>“Ia aos Bancos para ajudarem a financiar uma start –up” (linha 53)</i>	<i>“I used to go to the banks urging them to finance a start-up” (line 53)</i>
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Table 18: Interview B–retrospective account 2.

Is this retrospective account accurate? We will never know. However, Weick introduces a note of caution warning, “the past has been reconstructed knowing the outcome, which means things never happened exactly the way they are remembered to have happened” (Weick 1995: 28).

Does this retrospective account have a beginning and an end?

9.2.4. Where is the beginning and the end? (Ongoing)

That this is a never-ending process is a concept embedded in the narrative; entrepreneurs keep coming, as there is – within the association – a screening service where the different business plans come under scrutiny, before being presented to the regular informal gathering of business angels. According to this line of reasoning Weick argues, “sensemaking never starts” (1995: 42). The reason it never starts is that “pure duration never stops” (1995: 42). The narrative goes from the present to the past and then back to the present again.

<i>“Tem 90.... Nos começamos com meia dúzia de pessoas” (linha 5)</i>	<i>“We have 90 We started with half a dozen individuals” (line 5)</i>
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Table 19: Interview B–ongoing account 1.

This fragment of the narrative is illustrative of this ongoing process, as it starts with a factual account of the present and immediately goes back to the past.

The angel investor’s voice surfaces with the idea that ongoing elements exist at different stages of the discourse. Ongoing mediation occurs between entrepreneurs and business angels, in informal gatherings, for instance. At another level, there are interchanges between the clubs and the entrepreneurs, especially in sourcing as well as at screening events. There are interchanges between business angels themselves and between informal investors and the clubs.

This ongoing element is supported by the language, narrative, and eventually, the metaphors, but the question is: who is involved?

9.2.5. Interaction with Who? (Social)

Weick is clear that sensemaking “is never solitary because what a person does internally is contingent on others” (1995: 40). When the interviewee mentioned that the number of his own club expanded dramatically, his own words were:

<i>“Começou com meia dúzia... tivemos uma adesão fortíssima ...” (linha 5)</i>	<i>“We started with a half a dozen members... we had massive numbers of adhesions ...” (line 5)</i>
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Table 20: Interview B–social account 1.

This extract from the discourse encapsulates that “sensemaking pays a lot of attention to talk, discourse, and conversation because that is how a great deal of social contact is mediated” (Weick1995: 41).

On the other hand, this extract indicates that there is some kind of exchange between business angels and entrepreneurs or other informal investors. Watson puts it in a particularly delicate way, that exchanges “arise from an interplay between deliberate choice or purpose and the social, political economic circumstances in which they find themselves” (2003: 25).

There is a different part of the narrative where a different self is invoked: here he is an entrepreneur, seeking financial resources to develop his own project.

<i>“Ia aos Bancos ...” (linha 53)</i>	<i>“I used to go to the banks ...” (line 53)</i>
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Table 21: Interview B–social account 2.

In this discourse, the interviewee is in a mediation process – which is also social – with the interviewer introducing during the narrative, social elements as defined by Weick. The question is, were these clues embedded in the narrative?

9.2.6. Focused on and extracted by clues

Clues, according to the *ORD* are “stimulus to perception” (1989: 203). Weick goes even further to point out that “faith in these clues and their sustained use as a reference point are important for sensemaking” (1995: 53).

<i>“Apoio ao empreendedorismo” (linha 1)</i>	<i>“Support entrepreneurship” (line 1)</i>
<i>“Business angel têm certa capacidade financeira” (linha 19)</i>	<i>Business angels have a certain financial capacity” (line 19)</i>
<i>“Adesão fortíssima” (linha 5)</i>	<i>“Massive adhesion” (line 5)</i>
<i>“A organização funciona bem” (linha 41)</i>	<i>“The organization functions in a proper way” (line 41)</i>

Table 22: Interview B–clues account 1.

The first statement includes a rationale where supply and demand for financial resources are deemed to instantaneously meet each other. Moreover, a combination between smart money – from the business angels – and the dynamism of the different entrepreneurs does have all the ingredients to be a fruitful combination.

Another assumption, or cue, present in this fragment of text is that business angels are experienced entrepreneurs or top-tier managers with considerable financial resources.

A massive adhesion has an underlying message that the business model developed by this club is highly profitable attracting many investors, who are – by definition – experienced. This particular cue is compatible with the following one, which gives a lasting impression, but does not give material evidence to sustain the assertion, that the organization (the club) works properly. Does this imply that, in this smooth process, both entrepreneurs and business angels profit? Is this account accurate?

From the discussion above, it would seem that clues have a major role in the development of the sensemaking process. Are these artefacts alone? Certainly not, as plausibility also plays a decisive role.

9.2.7. Plausibility rather than accuracy

Weick noted that, “even if accuracy were important, executives seldom produce it. From the standpoint of the sensemaking, that is no big problem” (1995: 57). Weick suggests that there are several reasons to explain why this is so. One of these reasons “is that speed often reduces the necessity for accuracy in the sense that quick responses shape events before they have become crystallized into a single meaning” (1998: 57–8).

In this interview, one can extract several fragments where plausibility takes precedence over accuracy. One of them is, in my opinion, the following:

<p><i>“Que há dinheiro para investir, senão passam a ser incomodados por toda a gente ... ehehe ... e a associação acaba por ser a face visível dessa vontade.” (linha 3)</i></p>	<p><i>“There is money to be invested [from the business angels] but they don’t want to be bothered by entrepreneurs asking for money, the association is, therefore the visible face of this will [be anonymous].” (line 3)</i></p>
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Table 23: Interview B—plausibility rather than accuracy account 1.

This fragment of the interview implies that business angels tend to be discrete, as they do not want to be disturbed all the time, so the associations or clubs were founded to prevent this from happening.

Is this a plausible account? There are no elements to deny the statement. Is it accurate? It is hard to say. On the club’s website, it is possible to discern all the club member’s identifications.

9.2.8. Conclusion of interview B

It can be concluded from the interview that since the club was founded in 2006, it has attracted around ninety members, which means that it has experienced explosive growth.

Another relevant topic has to do with the screening process. In essence, this means that when entrepreneurs contact the clubs, ultimately, they are seeking finance. Before business proposals are presented to the business angel community, the business plan is scrutinised in order to assess its internal consistency. This is a time-consuming effort, as several iterations tend to occur between the club’s hired analysts and the entrepreneurs themselves, before the business case is ready for presentation to an audience of business angels. In this club, business plan assessments are completed within the club, whereas in other networks, this is an outsourced activity.

Another relevant topic is the decision to grow in an independent way; promoting the appearance of delegations throughout the country. The first club had just opened in Oporto, Portugal’s second largest city. On the hand, the aim of the club is to develop partnerships with other business organizations. Why was this so? The reason is that there is a sourcing objective in this

decision. What does this mean? To have a good capillarity throughout the country means to have a good distribution channel, in other words, to have access to the sources of potentially interesting business plans: the sources rest in the business community and in universities.

Analysis of the transcripts was undertaken using Weick's framework (detailed in Section 8). The interviewee showed the ability to speak several voices: manager, business angel, entrepreneur, and responsible citizen. The manager voice was prevalent, as he stressed the characteristics: growth in the numbers of adhesions and, simultaneously, capillarity, which means expansion throughout Portugal. Finally, the narrative also considered ethical issues.

10. Reliability, Validity and Generalization

According to Saunders and colleagues, reliability “refers to the extent to which your data collection techniques or analysis procedures will yield consistent finding” (Saunders et al. 2007: 149); on the other hand, the same authors see that validity “is concerned with whether the findings are really about what they appear to be about” (Ibid. 2007: 150).

Bryman and Bell, using a similar line of reasoning, discuss whether concepts such as reliability and validity, very important to quantitative research, hold their meaning and relevance in qualitative research. These authors cite Mason, to whom these concepts hold the same meaning both in qualitative research and in quantitative research. For instance, validity refers to “whether you are observing, identifying, or ‘measuring’ what you say you are” (Bryman and Bell 2007: 410).

Other authors, such as Guba and LeCompte, developed a different framework by suggesting a distinction between internal and external reliability. The former stands for the potential for replication and the latter “whether or not, when there is more than one observer, members of the research team agree about what they see and hear” (Bryman and Bell 2007: 410).

These authors applied the same concept to validity, originating two distinct concepts: internal as well as external validity. By internal validity, the authors refer to “whether or not there is a good match between researchers’ observations and the theoretical ideas they develop” (Bryman and Bell 2007: 410).

Regards external validity Saunders and colleagues note that “the findings may be equally applicable to other research settings” (Saunders et al. 2007: 151). These authors define this as generalizability and stress that this concept is “sometimes referred to as external validity” (Saunders et al. 2007: 151).

11. Ethics

A number of interviews were performed as part of data-gathering process for Document 3, which is an interpretative piece of research.

The researcher explained the research to the interviewees in detail when inviting them to participate in the project. The participation involved semi-structured tap-recorded interviews. All expect one invitee freely and voluntarily accepted the invitation to participate in the current research.

Saunders and colleagues warn that, “The ethical issues of confidentiality and anonymity also come to the fore during the reporting stage of your research” (2007: 192). Therefore, during the reporting period, privacy of the interviewees and their anonymity was preserved. Bryman and Bell (2007) introduced another relevant concept: harm, meaning damage or injury to the interviewee. Harm can have several dimensions: physical, future prospects and self esteem (Bryman and Bell 2007: 133). During the interviews, the researcher was cautious, exercising all care to avoid any form of harm or damage of any kind to the interviewee; they were all free not to respond to any questions they did not feel comfortable about answering.

The interviews, scheduled in advance mostly took place in the interviewee’s offices. The researcher performed the interviews, and then transcribed them and did the subsequent coding. The tapes as well as the transcripts with the content of these interviews were secured in a safe place and will be destroyed when this research project is completed.

At this point, the business angels interviewed freely and voluntarily accepted to participate in this research project, the objectives of which previously had been explained to them. They agreed to allow the collection of the data and the recording of the semi-structured interviews. By accepting to be interviewed the interviewees expressed their formal consent. The information, which was collected without the use of deceptive methods or strategies, was collected with Bryman and Bell’s warning in mind: deception is “when researchers represent their research as something other than it is” (2007: 141). Moreover, this research project was submitted to the Ethics Committee of Nottingham Trent University and received formal approval.

12. Concluding Remarks

Table 24 summarises the major findings of the two interviews in terms of comparable facts. It is important to stress that one club (club B) has national coverage, whereas the other club (club A) has a more limited geographical coverage, which does not imply that is any less dynamic.

	Club A	Club B
“Epiphany”	Supply and demand	Entrepreneurs and managers
Number of members (at the date of the interview)	40	90
Number of founding members	20	6
Date of formation	2006 (end)	2006
Number of investments (at the date of the interview)	6	3
Number of female members (at the date of interview)	1	2
Venture-pitch sessions	4	Several

Table 24: Contrasting the narratives.

Table 25 summarises the characteristics of the interviewees. As can be seen, there are several shared characteristics, though Interviewee B is apparently older than Interviewee A.

	Interviewee A	Interviewee B
Gender	Male	Male
Entrepreneurship experience	Yes	Not mentioned
Investment experience	Yes	Yes
Belongs to the managing team of the club?	Yes	Yes
One of the “founding fathers” of their club?	Yes	Yes
Education	University degree	University degree (Former Assistant Professor)

Table 25: Characteristics of the business angels interviewed.

In conclusion, two interviews involved Portugal’s best-known business angels. What is the future strategy from here on in? Try to interview the leaders of the other clubs in Portugal is the next task.

In a broader context, it might be useful, in order to gain a more holistic view, to interview not only business angels but also other stakeholders, such as, specialised journalists, policy makers and, eventually, entrepreneurs that might have been supported by business angels in the development of their new business ventures.

The data that emerged from the narratives produced by these business angels are compatible, in essence, with the conclusions of Document 4. In fact, the number of business angels has been increasing steadily in Portugal, the same upward trend has happened with a number of clubs.

Accordingly, investments have been increasing in Portugal and the stock of available financial resources for consistent business plans is increasing.

Extracted from the interviews is the sense that there is interesting potential for the banks, as the number of business cases presented to the clubs is higher than expected by business angels. Another interesting fact is sometimes business plans presented to the different clubs is not entirely consistent, requesting several iterations between those with responsibility for analysing the business plans: clubs or outsourced companies and entrepreneurs. This fact may open the way for training companies to assist entrepreneurs to build their business projects in a more professional way.

Another interesting element that emerged from the interviews is the increasing cooperation between clubs, formal venture capital companies and banks, which is an important factor of risk mitigation.

In conclusion, the positive factors to emerge from the research on Document 4 have been reinforced by the conclusions of Document 3: that informal investment in Portugal might become an interesting market “niche” to be explored by banks.

12.1. The hidden results of this research

The results obtained from these two interviews are interesting, as they unveil factors and details associated to the creation of clubs. Although the two narratives are, in essence different, as they are personal accounts of the development of two distinct clubs, the discourses reveal the existence of a number of common factors, detailed in Table 23 on page 48.

Some features need to be addressed in order to have a clearer picture of the development of the organizations. In fact, until now, we have had a “top-down” approach, meaning that researchers have talked exclusively with managers of distinct clubs. It would be interesting to gain the perspective of ordinary business angels with investment experience or not, as they would contribute to producing a “bottom-up” approach and unveil additional factors and details about the dynamic social realities that business angel clubs represent.

12.2. Limits of this research

This type of research has limitations. This is an account, produced by managers about the organisations they have managed since the beginning until now. It is therefore a personal account, where several fragments of the reality are brought together, bounded into the narrative that accommodates, as we have seen, most of the characteristics mentioned by Weick, as constituents of the sensemaking process.

Additionally there are geographical limitations, since the interviewees involved in this research were managers of clubs located in Lisbon's metropolitan area. In fact, there are eleven clubs currently operating in Portugal. Another limitation rests on the fact that the current research relies on only managers' interview; so far, only experienced business angels have been contacted, in what is, clearly, an additional limitation of this research.

How to overcome these limitations? One way to reduce the impact of these limitations was detailed in Section 7 of the current Document, and can be summarised as follows: interview a number of different stakeholders in this business sector.

13. Reflective Practitioner

This Document began with a definition of its aims, which was only possible after having done an update to the literature review.

Elaborating the list of the themes and questions that were to be discussed in the interviews with the experienced business angels, was the first task performed. Following this, time was spent inviting business angels for interviews. A few accepted, one declined participating in this research project. After the interviews, which took place in the interviewees' offices, I spent time with the transcription process, which was followed by the coding process. The analysis of the transcripts was very useful as it was an opportunity to exercise Weick's framework.

13.1. Professional

The contacts I managed to acquire during the construction of Document 4 were of crucial importance for the development of Document 3, as they revealed to be a good platform for expanding the number of contacts. In fact, Document 3 allowed me to expand my contacts in Portugal and, simultaneously, gain additional access, though limited, to the informal venture capital market in the United Kingdom.

This industry is growing fast, following the public encouragement given by the Portuguese government to the informal venture capital market in 2009. According to the leaders of this industry, the number of members of the different clubs has dramatically increased over the last year.

13.2. Interviews, Narrative, and Discourse

The elaboration of this Document was based on subjectivism, which is an ontology quite different from the one used while working on Document 4. At the time, an objectivist ontology was used and, accordingly, a positivist epistemology. I was quite familiar with this positivist approach as my background is in accounting and finance.

Without doubt, the qualitative analysis seminars that took place at Nottingham Trent University were most important offering valuable insight, in that, I came across an ontology and epistemology I had not previously known about.

In addition to new concepts, I have also been introduced to new authors. These new concepts and new authors have been important for Document 3 and will be equally important in my professional life.

Finally, having completed Document 3 I feel equipped with an additional ontology and epistemology. Having already completed Document 4, I am now able to work under different ontologies and, consequently, use distinct epistemologies. Gaining this additional skill has been a most important outcome of working on Document 3.

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NOTTINGHAM BUSINESS SCHOOL

DOCUMENT 4

Entrepreneurs, Business Angels and Finance:

Comparing and contrasting the development of Business Angel Networks (BAN) in
The United Kingdom and in Portugal

**Document submitted in part fulfillment of the requirements of The Nottingham
Trent University for the DBA degree**

Student:

Ricardo Nuno Teixeira de Gouveia

N0165583

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Note about Documents 1–4

Documents 1–4 are edited versions of the originals submitted on the dates detailed on the frontispiece of each Document.

Introduction

This Document, based on an objectivistic ontology and on a positivistic epistemology, begins with some general considerations about ontology and epistemology. This exercise is of crucial importance to frame the ongoing research, especially with respect to ensuring consistency between the adopted ontology and epistemology pursued. The deductive method, also known as the hypothetic deductive method, is “made up of the following minimal components: theory, hypothesis, operator definition, measurement, testing and verifications” (Jankowicz 2005: 111) and this is the one that will be followed.

A brief overview of the research area will then follow. The research is about business angels in Portugal, whereby it begins with a definition of business angels, also known as informal investors. The conceptual framework, to be developed soon after, will identify four different research segments. These four different aspects will be addressed by questioning Portuguese business angels, but not the entire population: two business angel clubs have been selected for the current Research Document.

In order to do this, a questionnaire was prepared and administered to these informal investors. The results were analysed using SPSS software. Two sets of analyses were considered: an analysis of the responses to the twenty-eight questions mentioned in the survey, followed by a comparison of the responses that were given by business angels, and an analysis of the responses provided by informal investors, still without investment experience, to five similar questions.

As mentioned above, a sample of two business angel clubs was selected to participate in this research. The clubs involved were Cascais Business Angels Club¹ and the Investors Club of Lisbon.² Despite sending emails to the administrative offices of the two clubs to send to their affiliated business angels and contacts that the “leaders” of those two clubs have made, the response rate was low.

¹ www.fnaba.org [accessed 10 April 2009].

² www.businessangelclub.com [accessed 10 April 2009].

After comparing the responses given to these five similar questions using the Chi-squared test of independence,³ a consistency test was performed – despite the low response rate – using Cronbach's⁴ Alpha test, with stimulating results.

So far, the findings obtained have allowed the construction of a preliminary approach to the characteristics of the Portuguese business angels, in what is the first academic research produced in Portugal on this topic, as far as I know. The data available is limited, as it does not allow consistent extrapolations for the entire Portuguese business angel population. However, this research puts some boundaries on our knowledge about the characteristics of the Portuguese informal investors, their past and future investments, which may be useful in designing future research projects.

³ The Chi-squared fitness test is commonly used to test association between variables in two-way tables, where the assumed model of independence is evaluated against the observed data. In general, the chi-squared test statistic is the form. See: <http://www.stat.yale.edu/Courses/1997-98/101/chigf.htm> [accessed 10 April 2009].

⁴ The Cronbach Alpha test measures the extent to which item responses obtained at the same time correlate with each other. See: <http://faculty.chass.ncsu.edu/garson/PA765/standard.htm>: [accessed 10 April 2009].

Ontological Considerations

The ontological perspective to be considered while working on Document 4 must be addressed first, as clearly it will be different from that followed for Document 3. An interpretativist approach was pursued in Document 3, while for Document 4 an objectivist approach will be sustained: moving from an inductive towards a deductive stance.

As observed before, ontology is the part of philosophy concerned with the nature of social entity (Bryman and Bell 2007: 22). Using the same line of reasoning, Easterby-Smith argues that ontology “are assumptions that we make about the natures of reality” (Easterby-Smith 2006: 31). Following the same line of reasoning, Jankowicz asserted, “ontology is a branch of metaphysics which deals with the natures of existence” (Jankowicz 2005: 106).

At this point, research can take different stances. Bryman and Bell (2007) refer to both objectivism and the constructionism. The former implies that social phenomena confronts or influences us as external facts that are beyond our reach (Bryman and Bell 2007: 22). The latter, at the other end of the spectrum, taking a constructionist position will “challenge the suggestion that categories such as organizations and cultures are pre-given and therefore confront social actors as external realities that they have no role in” (Bryman and Bell 2007: 21).

Easterby-Smith (2006) elaborated on this a little bit further, mentioning that there are two traditions guiding how to conduct research in the social sciences: on one hand is positivism where “the key idea is that the social world exists externally, and that its properties should be measured through objective methods” (Easterby-Smith 2006: 28). On the other hand, there is social constructionism “where the ‘reality’ is determined by people rather than by objective and external factors” (Easterby-Smith 2006: 30).

The following step has to do with the relations between ontology and epistemology, in fact, the acceptance of a particular perspective according to Easterby-Smith, “usually leads the researcher to adopt methods that are characterised of a particular position” (2006: 33). There is the notion of a necessary consistency between the chosen ontology and the applied epistemology. Bryman and Bell stress this link asserting that, “Questions of ontology cannot be divorced from issues concerning the conduct of business research” (2007: 25).

Having discussed the ontological factors one must address to the epistemological issues associated with this research.

Epistemological Considerations

Jankowicz (2005: 108) suggests that epistemology “deals with knowledge. It provides ways of deciding what counts as knowledge and what doesn’t and related to this, what counts as evidence and proof”. Epistemology, according to Easterby-Smith, is the “general set of assumptions about the best ways of inquiring into the natures of the world” (2006: 31).

In this Document, an objectivistic or positivist approach will be employed, as “There is an external viewpoint from which it is possible to view the organizations, which is comprised of consistently real process and structures” (Bryman and Bell 2007: 25). Rooted in this perspective, how should one conduct this research project? The starting point is the development of the Conceptual Framework, followed by the formulation of the Research Questions. The process will attain its objectives by the construction of the questionnaires, which two different business angel clubs in Portugal will answer.

Reliability

Reliability has to do with a “consistency of measures” according to Bryman and Bell (2007: 163). One fundamental dimension of reliability is stability. In fact, in this research, there is a possibility to use this research questionnaire again on the same sample as well as for different samples.

In this case, two different business clubs were selected, both located in Lisbon in the Metropolitan area, and actually the most developed area of the country. It is obvious that further research might consider other geographies, since there are business clubs throughout the country. The administration of the same questionnaire to the same sample, at different periods, may provide additional information about changing trends.

The internal reliability is a relevant aspect mentioned in the literature. In fact, it is possible to consider the application for the Cronbach’s Alpha test, which, according to Bryman and Bell will: “essentially calculate the average of all possible split-half reliability coefficients” (2007: 164).

Validity

The questionnaire was designed with the collaboration of the researcher's supervisors. One of the aims was to minimise misinterpretation. Most of the sections started with a small introduction, to set the context of the questions. Moreover, a covering letter (see Appendix 1) was sent together with the questionnaire, framing and identifying the research project. Ultimately, in Questions 12 and 24 of the questionnaire the concepts evoked were clearly identified.

Generalization

Generalization is an important element in quantitative research. For this reason, and according to Bryman and Bell "in quantitative research the researcher is usually concerned to be able to say that his or her findings can be generalized beyond the confines of the particular context in which it was conducted" (2007: 69).

In the current research, a sample of two business angels clubs in Lisbon and Cascais was selected. Can the results obtained be generalised to the overall emerging Portuguese industry? The researcher does not have enough data either to accept or to reject the assumption. What is certain, however, is that the information extracted from the questionnaires, allows preliminary conclusions to be drawn about these two clubs.

In Portugal, there are ten Business Angel Networks (BANs), also called clubs or associations. It is thought that the number of clubs will expand in the future. At this time, there is relevant information from two clubs: one being the oldest operating in Portugal. Both clubs, Lisbon and Cascais, are located in the most developed region of Portugal: in the Lisbon metropolitan area.

The development of this Research Document required the involvement of the leaders of these two clubs, which was of crucial importance in gaining the support of the leaders of the remaining business angel clubs throughout the country. This may open up the opportunity for additional information about Portuguese business angels and allow preliminary conclusions to be drawn about the entire Portuguese informal investors industry.

Replication

Generalization of the findings will require the replication of the questionnaire to other Portuguese business angel clubs, until a representative sample has been achieved; according to Bryman and Bell, replication "is an important ingredient" (2007: 171). However, it is important

to mention that, traditionally, the response rate is relatively low among business angels (Harrison and Mason 1992: 462).

Replication is possible either in time as well as in space. In time, it means the periodical application, of the same questionnaire to the same sample, in order to detect emerging trends. It is also possible to replicate geographically by applying this study to different clubs throughout the country. As illustrated in Figure 1, there ample room for further geographical replication.

Clubs	Observations
Lisbon Cascais Invicta Vima Covilha Open Santarem Alentejo Algarve APBA	Included Included Not included Not included Not included Not included Not included Not included Not included Not included

Figure 1: Existing clubs and the sample. Source: author’s own.

Up to this point, the chosen sample represents 20 percent of the existing clubs in Portugal. Therefore, there is ample room for replication, providing one is able to gain the active support of the leaders of the remaining clubs.

The replication of this questionnaire is crucial in order to gather additional information about the personal profiles of the business angels linked to clubs and to learn about characteristics of their past and current investments, thus gaining further insight into the informal investors in Portugal.

Ethics

This Research Document involved negotiating access to two different clubs of business angels. The clubs – which were very cooperative throughout – mediated this process as the researcher was not supposed to have direct access, at an individual level, to business angels.

On the other hand, the researcher had to assure anonymity of the responses. This was achievable by ensuring that the questionnaires were identical in every respect without any identifying marks, being therefore impossible to identify the origin of the responses.

The research meets the criterion of informed consent entirely: the clubs sent the questionnaires to the business angels who, in turn, agreed to respond, by mail, to a pre-defined address.

As Fisher warns, the researcher “should not treat people unfairly or badly” (2004: 54). At the beginning of this process, meetings took place in Lisbon with the leaders of the different business angel clubs to detail the research project. The same was true for the business angels that participated in this project ultimately; they were sent an information sheet briefly explaining the research project together with the questionnaire and the covering letter. The researcher provided all the surveyed business angels with full details of the research project; and respondent’s agreement to participate in the research was indicated by their sending back the questionnaire.

The research project was submitted to the Ethics Committee at Nottingham Trent University. Early in 2009 and the researcher received formal approval for the current research project.

Submitting the Questionnaire

The questionnaire was submitted to business angels throughout the business angels networks (BANs) or clubs. A number of questionnaire packs were sent to BAN’s administrative offices, with they then sent to different business angels by post. The pack contained a letter, a paper-based questionnaire, an information sheet and a pre-paid response envelope.

Throughout the process, there was no direct contact between the researcher and individual business angels, as the different clubs were unable to share their own address list. The researcher, who anticipated this situation, suggested an alternative way to submit the questionnaires, proposing to be the BANS instead, to allow them the responsibility for sending out the questionnaires to their members.

The questionnaire packs that sent resulted from conversations between the researcher and the leaders of the two clubs. As some business angels are known to be more participative than other colleagues and the leaders of both clubs know the profiles of each member, it was therefore, prudent to allow the leaders to assess which of their members would be keen to respond to

questionnaires and those who would not be. This exercise was carried out for both clubs. During this process, leaders of the business clubs were very cooperative.

The Lisbon club received twenty-five packs and the Cascais BAN received twenty packs. The two clubs forwarded the packs to their business angel members and kindly requested to respond to it as soon as possible. During this process, the BANS sent reminder emails to their members urging them to answer.

Identification of the Research Area

This research is confined to business angel activity in Portugal.⁵ Business angels are private wealthy individuals willing to invest their own money in new business projects for a limited period of three to five years. I will consider as business angels those who are formally members of the different business angels clubs. Some of them have already had investment experience, but others have not, due mainly to risk considerations.

In the current research, three groups of variables are considered, the investor's profile variables, investments profile variables (past or future) and variables defining the relations between clubs and business angels. The links between these groups of variables will be explored in the conceptual framework section.

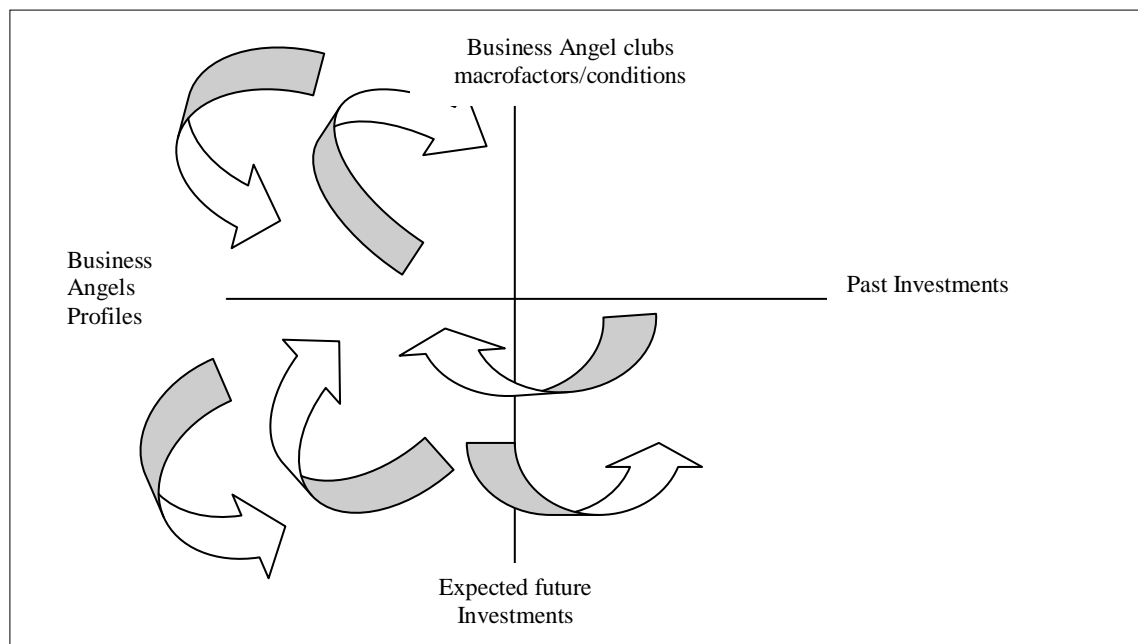


Figure 2: Boundaries of the research area. Source: author's own.

⁵ Business angels are also known as informal investors or angel investors.

The above diagram shows that the aim of this research is to explore different areas in the business angel context.

This research will uncover the profiles of the Portuguese business angels by addressing members in two business angels clubs. To reveal the profiles of business angels in Portugal some initial questions are asked in Section 1, including: “How old are you?” and “Where do you live?”

Another area worth researching concerns the characteristics of past and current investments. Among the business angels there are those who already have investment experience. For these business angels, Section 2 of the questionnaire has been developed, among other questions: “How much did you invest?” and “Where did they invest?” By following this pattern, the aim is to gain a clear picture of the amounts invested by business angels, the economic sectors business angels prefer to invest in, and the phase the business ventures were in when the business angels decided to invest.

On the other hand, some business angel club-members are virgin or potential informal investors, as they do not yet have any investment experience. However, as a member of a business angel club, they will have had contact with the informal investment industry, meaning that they have ideas about their future typical investment. In Section 3, therefore, the aim is to unveil what potential business angels’ expect their typical future investments to be. In terms of the amount invested, we have to consider the economics of the sectors where the investment will take place. The co-investment topic is also addressed to assess whether potential informal investors feel comfortable with the idea of co-investments.

Finally, an assessment will be made of how business angels see their relationship with BANs. Section 4 therefore was developed to gain deeper insight into the connections that exist between both of the clubs and their members.

Having defined the research area in broad terms, the next section of this Document will consider the structure and the intrinsic dynamism of the Portuguese business angel industry, before moving on to the Conceptual Framework section.

Business Angels in Portugal

Based on conversations with several representative leaders of this industry in Portugal, and based on my own research into the literature, it appears that no academic research has been produced about this recent phenomenon in Portugal, either nationally or in regional terms. The number of actual and potential business angels has been growing steadily in Portugal, according to different players in the market. The difference between an effective and a potential business angel is relevant. In the first case, a business angel will have experienced an investment, either individually or as part of a syndicate with other investors, whereas a potential business angel is someone without a previous investment record, although s/he is interested in analyzing emerging opportunities.

At a national level there are two relevant structures: the Associação Portuguesa de Business Angels (APBA; Portuguese Association of Business Angels)⁶ and the Federação Nacional de Business Angels (FNBA; National Federation of Business Angels),⁷ which congregates business angel clubs from all over the country. The Federation, founded in 2007, is undoubtedly a recent figure in the market, representing the bond between different business angel clubs that have been emerging throughout the country. On the other hand, the APBA is an association formed in 2006 that has been growing throughout the country by creating delegations or establishing partnerships where possible. In fact, in Oporto, Portugal's second largest city, an APBA delegation has recently started to operate. This association does not have any link, whatsoever, to the FNABA.

Business angels are a relatively recent phenomenon in Portugal, but, as mentioned in Document 2, they are well-established entities in countries such as the United States of America, the United Kingdom, and also in Scandinavia.

However, from the contacts with the leaders of several business angel networks, it is clear that there has been an explosive growth in the number of people becoming business angels in recent years. Not only is the number of associate members in the different clubs growing, but also the number of clubs has been expanding.

The oldest club in Lisbon – Associação de Investidores e Start-ups – began operating in 1999. After a lethargic period that followed the “dot-com” crisis in early 2000, the club revived in

⁶ www.apba.pt [accessed 10 April 2009].

⁷ www.fnaba.org [accessed 10 April 2009].

2004/2005. It does not have more than fifty members according to its website but is one of the most dynamic clubs in Portugal. Its leader; Francisco Banha is a well-known business angel, who has gained much media attention.

The APBA was formed in 2006 also in Lisbon. This association, which refused to adhere to the FNABA, has almost 100 members. Unlike in the United Kingdom – where business angels are not identified (they prefer to remain anonymous), some Portuguese business angel clubs do identify their members on their websites. In fact, the APBA website identifies all its members.

Not far from Lisbon, in a village west of it, is Cascais, it was here that another business angel group was founded in late 2006. It now has around forty members most of whom live in that area. Cascais club together with the Lisbon club were among the founding members of FNABA.

As mentioned, several other business angel clubs operate in Portugal, apart from the three already mentioned. Although most of them are recently established clubs, they are relevant to the current research; one in particular that might be useful is the Invicta Angels;⁸ however, the leader of this club declined by email the invitation to participate in an interview session with the researcher.

In summary, recently, seven business angel clubs have been formed in Portugal. There are two networks operating in north Portugal (Invicta and Vima), three in the middle of the country (Covilhã, Centro and Open) and the other two are located in the south of Portugal (Alenbiz and Algarve). All of them operate under the FNABA brand, as illustrated in Figure 2.

⁸ Invicta Angels is the name of the business angels club in Oporto, the second largest city in Portugal. More information on the club website: www.invictaangels.pt [accessed 25 May 2009].

Non-FNBA Members	FNBA Members*
APBA	<ol style="list-style-type: none"> 1. Invicta Angels 2. Vima Angels 3. Business Angels Covilhã 4. Alenbiz 5. Business Angels Algarve 6. Centro Business Angels 7. Open Business Angels 8. Lisbon Club 9. Cascais Business Angel Club

Figure 3: Existing clubs in Portugal. *The members of this federation – FNABA – are the different business angel clubs throughout Portugal, with one exception: the APBA. Source: author’s own.

Figure 4 shows the location of the business angel clubs. There is a concentration in the north of the country, where there is an intense economic dynamism.



Figure 4: Geographical distribution of business angel clubs in Portugal. Source: http://www.fnaba.org/doc/FNABA_apresentacao.pdf

Elaboration of the genesis of the informal investment industry – which began in Portugal in 1999, and simultaneously designing a concise picture about where the industry stands now, is a fundamental step before addressing the conceptual framework that supports this Document.

Conceptual Framework

Figure 5 shows the development of the conceptual framework. Previously, four main areas were identified for research in Portugal: the profile of current business angel club members; whether they have already invested or not; characteristics of typical current/past and future investments and; finally, the study of the relations between the clubs and their members: the informal investors.

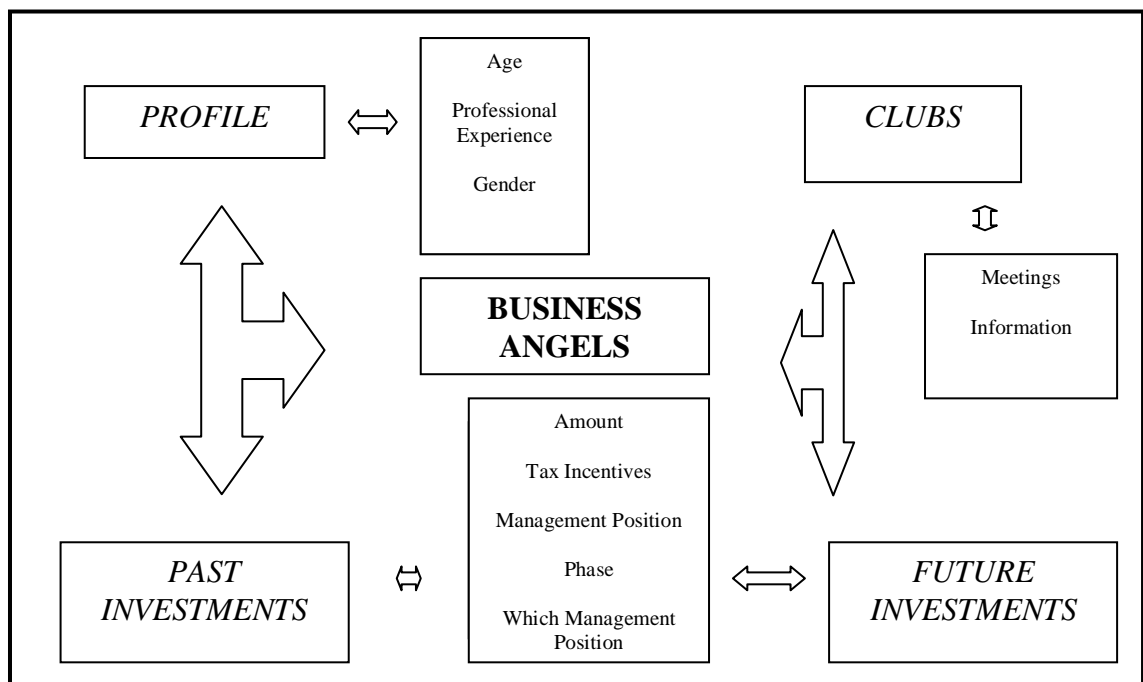


Figure 5: Conceptual framework. Source: author's own.

The four main research areas are identified in Figure 5 in the four boxes that cover the different areas: profile, past investment, future investments and clubs. Within the profile area, several variables were considered, including age, gender and business experience.

Past investments refer to some of the characteristics of past/current investments, such as the amount invested, the sector in which the investment was made, and at what phase the business venture was when the business angel entered. The same questions were asked about future investments. Following this, comparisons of the responses given to a number of similar questions will be undertaken. This is evident in Figure 5 as the two boxes are indirectly linked to one another.

The relationship between business angel clubs and their members is also the subject of the current research, which explains the existence of the box – clubs – situated at the top-right of Figure 5. In this area, different topics are investigated such as, how frequently business angels attend club events and what sort of information is provided by clubs to their members.

The link between profile, investments and clubs will be explored at various levels. While past and current investments are linked to experienced business angels, future investments are connected to potential business angels: club members without investment experience. The responses given by these two segments will be compared. Is there a link between these responses? This issue will be discussed below.

At another level, the researcher will explore the existence of links between the variables included in the business angel profiles and the variables included in the characteristics of both past and current investments. The reasons why this issue should be explored rests on the assumption that business angels of different ages, different business experience or even gender, may consider investing different amounts or prefer to invest in different sectors. This issue will also be explored.

The Questionnaire

A Questionnaire was elaborated in order to research the four distinct areas mentioned above: business angel profiles, characteristics of typical investments made in the past and future typical investments, and finally, the relations between business angels and their clubs or networks.

The Questionnaire is divided into four main sections. In the first part, the researcher assesses the business angel club-member profiles, towards which, several questions are proposed that informal investors are asked to answer. If the answer to Question 4 is positive, the respondent is directed to Section 2 of the Questionnaire; if the answer is negative, the respondent is immediately directed to Section 3.

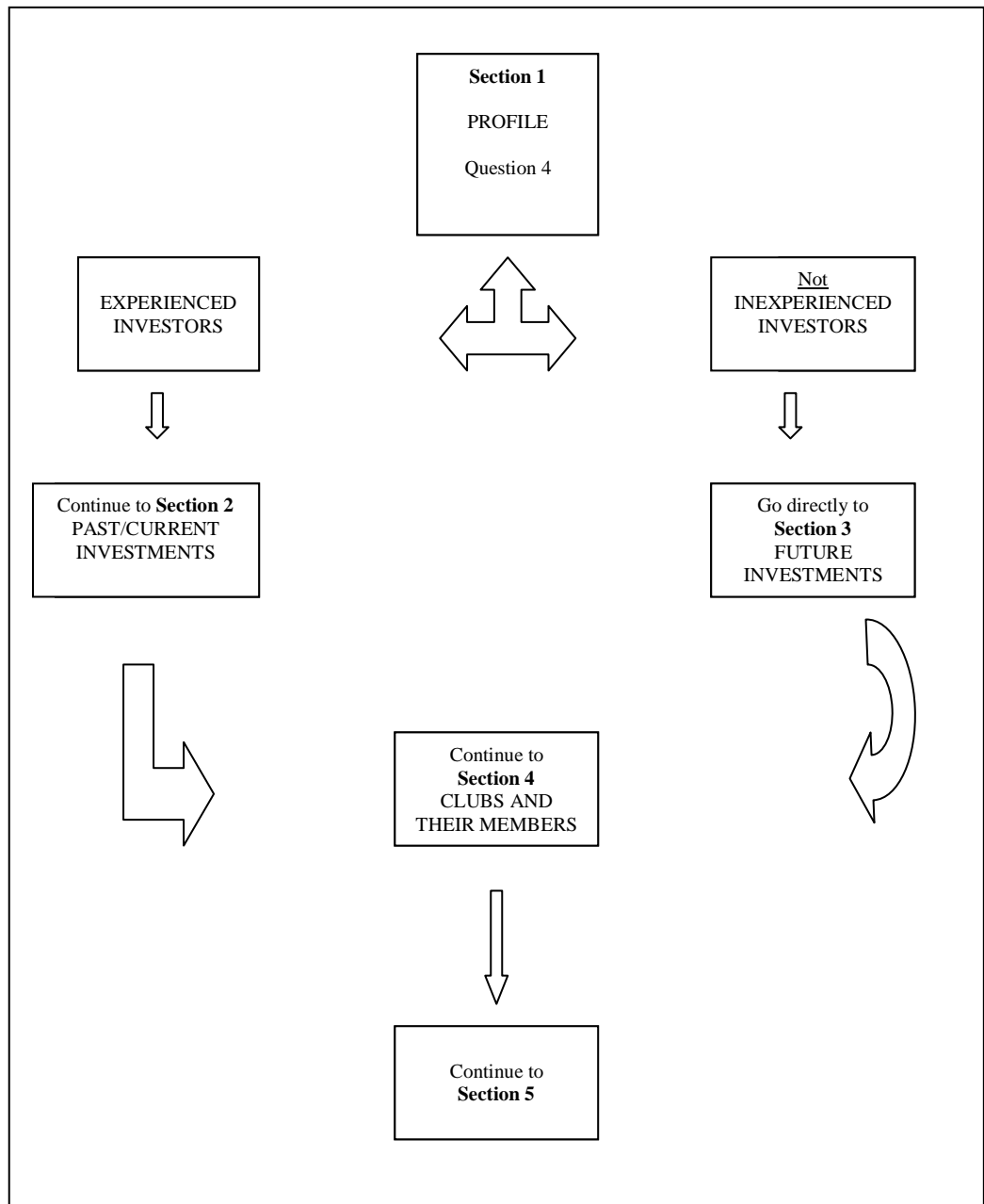


Figure 6: Questionnaire. Source: author's own.

In fact, among club members there are those who already have investment experience and those still without investment experience – these are potential business angels.

In Section 2 of the Questionnaire, the researcher addressed a number of variables related to both past and current investments. Who answered this section? This section addressed club members who already had investment experience. Club members without investment experience were directed from Section 1 directly to Section 3, where they are asked a number of questions about their typical future investment plans.

At the end of Sections 2 and 3, respondents are invited to go directly to Section 4. The aim is to explore how businesses angels relate with their own clubs. In Section 5, respondents were asked about their willingness to contribute further to the current research.

Figure 6 shows illustrates that there is a common Section 1, after which a distinction is made between experienced and inexperienced informal investors. Finally, Sections 4 and 5 are again, common sections.

What about future investments from experienced business angels? This issue will be addressed during the scheduled interviews. As the number of experienced business angels is small, it is possible to select a representative sample and proceed with semi-structured interviews.

The Literature Review

There is a growth of research focused on business angels. During the construction of Document 2, a number of authors were considered, among whom where Brettel (2002); Hindle and Lee (2002); Hindle and Wenban (1999), Tashiro (1999); and Duxbury et al. (1996). In Scandinavia, there has been extensive research on business angels: Reitan and Sorheim (2000); Sorheim (2003); Saetre (2003); Landström (1998); Sörheim and Landström (2001); Erikson (2005); Sörheim (2005); Landström (1993); Sörheim and Landström (2002); Politis and Landström (2000); and Lumme and Mason (1996). In the United Kingdom authors are: Harrison and Mason (1992); Harrison and Mason (1996); Mason and Harrison (1996); Mason and Harrison (1999); Mason and Harrison (2000); Harrison and Mason (2000); Harrison and Mason (2002); Mason and Harrison (2002a); Mason and Harrison (2002b); Harrison and Mason (2004); Harrison and Mason (2007); Mason and Harrison (2002); and Mason and Stark (2004). In the United States of America and Canada: Haar et al. (1998); Wetzel (1987); Frear and Wetzel (1990); Fear et al. (1994); Sullivan and Miller (1996); Aram (1989); Prasad et al. (2002); Fenny et al. (1999); Liper and Sommer (2002); Sohl (1999); Wiltbank (2005); and Prowse (1998).

Those researchers, some more inspiring than others, provided useful insights and clues as to how the Questionnaire should develop. The authors addressed different topics and some similar ones, but in different geographies and contexts. What were these topics? Age, education, business experience, profitability, exit strategies were among them. Below is a summary of the findings per topic, which starts with age and education and ends with profitability. Although this analysis is not by any means exhaustive, it does provide insight into the types of research

that has been undertaken in the United Kingdom, the United States of America and Canada and Scandinavia.

Business angel profiles

Age and education

In terms of age, Brettel argues that German business angels are forty-eight years old on average; a similar age as observed in the United Kingdom and United States (Brettel 2002). In Singapore, Hindle and Lee argued that 75 percent of the business angels involved in their research were between forty and fifty-nine years old (Hindle and Lee 2002). In Australia, the median age of business angels interviewed was around forty years (Hindle and Wenban 1999).

In Japan, according to Tashiro, the average age of business angels is sixty, which is older than their counterparts in Singapore and Australia, but significantly older than business angels in the United Kingdom and the United States (Tashiro 1999).

In Norway, on the contrary, according to a survey among business angels, angels are typically male “aged between thirty-five and fifty-five years of age, with higher education” (Reitan and Sørheim 2000: 133).

Business and investment experience

Brettel argues that, on average, German business angels have 12.5 years’ management experience and have participated in one or more investment (Brettel 2002). In Singapore 73 percent of the respondents said that they had management experience in their “own business” (Hindle and Lee 2002). In Australia, business angels “rated themselves as ‘general managers’ and ‘people managers’ and most had been involved in several start-ups ventures before” (Hindle and Wenban 1999: 173).

In his research, Brettel mentions that two-thirds of German business angels are involved in corporate management, adding that this figure is compatible with the existing figures for the United Kingdom and United States of America, where the percentage is 69 percent (2002). Reitan and Sørheim mention that Norwegian business angels have “extensive work experience” (2000: 133).

Income

Brettel argues that two-thirds of respondents mentioned having an annual income above €250,000, whereas one-third has an annual income higher than €500,000 (Brettel 2002). In research carried out in Australia, 34 percent of respondents mentioned having an annual income of between \$200,000 and \$299,999 (Hindle and Wenban 1999). In Norway, business angels mentioned having an annual gross income of \$76,000. In Japan, the opposite is true: Tashiro mentions that the average income among business angels is equal to \$640,000 or more (1999).

Exit strategies

In Germany, the preferred strategy is through Initial Public Offering (IPO) (Brettel 2002). There is no reference to exit strategies at all either in the research produced in Singapore or in that produced in Australia. In Japan, according to Tashiro, IPO is the preferred exit strategy (Tashiro 1999). In Finland, business angels prefer trade sales as the exit strategy (Lumme and Mason 1996).

Psychological aspects

In a study focused on Canadian business angels, Duxbury, Haines and Riding argue that, apart from profits, among other motives for investment are, “achievement, affiliation and involvement” (Duxbury et al. 1996: 53).

The Swedish academic Landström states that “satisfaction of playing an active role in small business” was among the motives supporting business angel investment (1988: 329). In Germany, Brettel concluded that business angels in Germany are motivated to make investments for three fundamental reasons: fun, to support young companies and to attain a high capital growth (2002). Tashiro, using a similar line of reasoning, believes that among the most important motivations for business angels to invest in Japan are contributions to the development of young entrepreneurs and involvement in entrepreneurial business (1999).

Profitability

In research produced about Finish business angels, the authors Lumme and Mason concluded that the median time for business angels to stay with a business venture was four years. Almost one-third of investors surveyed mentioned having had positive profitability. One-fifth of business angels surveyed stated they had experienced Internal Return Rate (IRR) above or equal to 20 percent of their investment (Lumme and Mason 1996).

In the United Kingdom, Mason and Harrison concluded that 34 percent of surveyed investors exited the business with losses, 13 percent left at break-even point and 23 percent experienced IRRs above 50 percent (Mason and Harrison 2002a). In the United States, Wiltbank concluded that two-thirds of investments failed, “while 20% of the exits were over 100%” (2005: 356).

Having summarised the findings provided by the existing literature, the next section discusses construction of the Research Questions, after which, the choice of the sample will be considered.

Research Questions

The main Research Questions are:

- How are Portuguese business angels characterised?
- What do business angels consider the most important characteristics of past/current investments?
- How do potential business angels see their future typical clubs?
- How do business angels clubs relate to their own members?

For each of the four main research questions other sub-questions emerge. What is the age profile? What are the business-experience profiles and the investment experience profiles of surveyed business angels? These are some of the issues explored in the design of the first Research Question.

The second and third Research Questions cover several themes that include the amount of money business angels invested and in which sectors; also the phase the business venture was in when the investment occurred.

The final Research Question broaches several topics: for how long have business angels been club members? Do they regularly attend events organised by their club? Do clubs communicate on a regular basis with their members? These are some of the themes that the more general, fourth, Research Question covers.

Sample group

Amongst the various business angel networks or clubs operating in Portugal, there are the Cascais Business Angel Club founded in 2006, and the Investors Club of Lisbon, formed in 1999. Member numbers of the the two clubs are shown in Figure 7.

	Lisbon Business Angel Club	Cascais Business Angel Club
Members	50*	40**
Questionnaires sent	25	20

Figure 7: Sample size and number of questionnaires. Source: author's own. * See the Lisbon club's website www.businessangels.com [accessed 10 April 2009] the number of business angel members is detailed and most are identified. ** The Cascais club has no specific website but this figure comes from a reliable source. See: www.fnaba.pt and www.dnacascais.pt [both accessed 4 July 2009] for more relevant information.

Since it was not feasible to cover all the business angel networks in Portugal and some of them have just started to operate and therefore have limited records about investments and member experience, focus is on two of Portugal's most important clubs. These are the Lisbon and Cascais clubs. The method used encompasses close connection with Document 2 (already submitted) and Document 3 (in final stages). In fact, Document 2 included an overview of the findings of business angels' research that so far has been carried out worldwide.

The researcher attempted to involve another club in the current research, but it was not possible to gain the support from its leader.

Analysis of the Results

Methodology and methods

This Document undertakes analysis of the results at four different levels, the details of each level of analysis are presented below.

At the first level, the different answers given to the twenty-eight questions of the Questionnaire are analysed. The answers to each question provided by the respondents will be used to construct a Distribution Table, with both the absolute as well as the relative distribution. The last column (far right) will show the aggregate values, in absolute as well as in relative terms.

In the second level of analysis, a comparative exercise is performed involving the answers to a set of pre-defined questions (shown below). The comparison process involves the construction of a null hypothesis. Using the Chi-squared test of independence, the null hypothesis measures the level of significance, of 5 percent, whether the null hypothesis should be accepted or rejected. Therefore, if the values obtained are higher than 5 percent the researcher is not in a position to reject the formulated null hypothesis. Comparisons between the following questions were made:

- a) Question 10 with Question 18
- b) Question 12 with Question 24
- c) Question 15 with Question 25
- d) Question 16a with Question 22a
- e) Question 16b with Question 22b

The Questionnaire containing these questions is found in the Appendix of this Document.

At level three, the answers to the Questionnaire were assessed for consistency using Cronbach's Alpha approach, a technique used for "checking the reliability of statements" (Fisher 2004:166).

At the final level, a joint category of points is plotted. From the observations of Figure 9, several interesting conclusions are evident.

Analysis of the answers to Section 1: Profile

This section of the Questionnaire has nine questions, which address different topics including age, gender, residence, business experience and investment experience.

Above, the most important findings of the research produced in other countries was discussed. For Portugal's business angels, some of the questions this research asks include: What is the age-range of Portuguese business angels? Are Portuguese business angels predominantly male? Do they invest far from their homes/offices?

By questioning Portuguese business angels, for the first time, the aim is to put some boundaries on our ignorance about the profiles of Portuguese informal investors and, simultaneously, make some comparisons with the existing literature in the field.

A summary of the findings regarding the profile of the Portuguese business angels will be included in the final part of this section, together with a comparison of the results provided by the existing literature. The implications of these findings will be discussed later in this Document.

The results refer to nineteen answers received from business angels: eleven from the Lisbon Club and eight from the Cascais Club.⁹ The percentages shown below in Table 1 are for each club and for the total sample.

In aggregate terms, the modal age interval is forty-five to sixty-five, representing 57.9 percent of respondents. In the Lisbon club, the modal interval is even bigger, representing 75 percent of the answers. Apparently, Lisbon club members, on average, are older than their counterparts belonging to the Cascais club. The other relevant information provided is, that being a business angel is mainly a male activity. In fact, 94.7 percent of respondents are males whose preference is to invest in businesses not far from where they live. The results of this analysis are shown in Table 1. The implications of these results are evaluated in the last section of this Document.

⁹ Cascais is a village located 30 km west of Lisbon, the capital of Portugal.

		Club					
		Cascais (n=11)		Lisbon (n=8)		Total	
		n	%	N	%	n	%
Age	<20 years	0	0%	0	0%	0	0%
	20–25 years	0	0%	0	0%	0	0%
	26–35 years	0	0%	0	0%	0	0%
	36–45 years	4	36.4%	2	25.0%	6	31.6%
	46–65 years	5	45.5%	6	75.0%	11	57.9%
	>65 years	2	18.2%	0	0%	2	10.5%
Gender	Male	11	100.0%	7	87.5%	18	94.7%
	Female	0	0%	1	12.5%	1	5.3%
Residence	Lisbon	11	100.0%	8	100.0%	19	100.0%

Table 1: Business angel profiles: age, gender and residential area.

Another question asked which sectors business angels had worked in before. In fact, the most frequent business occupation rests on consultancy: 42.1 percent of the answers. This is especially important in the Lisbon club, where this percentage rises to 50 percent, followed by the financial sector with 36.8 percent. It is interesting that from respondent's answers, 45.5 percent of investors linked to the Cascais club were involved in Information Technology (IT). Construction is another relevant sector, especially for investors from the Lisbon club. Details of this analysis are presented in Table 2.

	Club					
	Cascais (n=11)		Lisbon (n=8)		Total	
	N	%	n	%	n	%
Financial services	4	36.4%	3	37.5%	7	36.8%
Construction	4	36.4%	1	12.5%	5	26.3%
Industrial products and services	0	0%	2	25.0%	2	10.5%
Electronics	0	0%	0	0%	0	0%
Telecoms	0	0%	0	0%	0	0%
Agriculture and Fisheries	0	0%	0	0%	0	0%
Energy	1	9.1%	0	0%	1	5.3%
Logistics and Transport	0	0%	1	12,5%	1	5.3%
Computers and IT	5	45.5%	0	0%	5	26.3%
Tourism and Leisure	1	9.1%	0	0%	1	5.3%
Consultancy	4	36.4%	4	50.0%	8	42.1%
Retailing	2	18.2%	1	12.5%	3	15.8%
Biotech and Pharmacy	0	0%	1	12.5%	1	5.3%
Health	1	9.1%	1	12.5%	2	10.5%
Other	0	0%	2	25.0%	2	10.5%

Table 2: Business angels' professional experience.

In conclusion, consultancy, finance, IT, and construction are some of the most important business sectors where business angels gain experience, although there was evidence of differences between the two clubs.

Analysis of the different variables relating to business angels' profiles will continue by considering the number of years' business experience.

In terms of the number of years' business experience, and considering the age of the respondents, as seen in Table 1, most of business angels are older than forty-six years old. Considering that individuals tend to start work before they are twenty-five years old, the number of years of business experience needs consideration. As shown in Table 3, this exceeds twenty years.

Across both clubs, no one indicated that they had less than ten years' professional experience. It is interesting to note, however, that members of the Cascais club tend to be less concentrated in the interval that represents more than twenty years' business experience than their Lisbon-based counterparts.

	Club					
	Cascais (n=11)		Lisbon (n=8)		Total	
Business Experience	n	%	n	%	n	%
Less than 10 years	0	0%	0	0%	0	0%
Between 10 and 15 years	0	0%	1	12,5%	1	5.3%
Between 15 and 20 years	4	36.4%	0	0%	4	21.1%
More than 20 years	7	63.6%	7	87,5%	14	73.7%

Table 3: Number of years' business experience.

This is relevant output, consistent with information provided in Table 1. In fact, in Table 3, four respondents from the Cascais club mentioned that they were older than forty-six years of age, which is compatible with having more than twenty years' professional experience. On the other hand, four respondents mentioned that they were more than thirty-five and less than forty-five years of age (Table 1), which is compatible with having between fifteen and twenty years' professional experience.

So far, there is evidence to suggest that business angels have extensive business experience; what about investment experience?

When considering business angels experience as investors, a decision was taken to consider as a measure the number of years of investment; this can be observed in Table 4 where, in aggregate terms, 31.6 percent of respondents have less than two years' investment experience. On the other hand, another 31.6 percent had more than five years' investment experience. The first group is more concentrated in the Cascais club, founded in 2006, whereas the more experienced business angels – those with more than five years' investment experience – belong to the Lisbon club, founded in 1999.

	Club					
	Cascais (n=11)		Lisbon (n=8)		Total	
	n	%	N	%	n	%
No experience so far	2	18.2%	2	25.0%	4	21.1%
Less than 2 years' experience	4	36.4%	2	25.0%	6	31.6%
More than 2 years' and less than five years' experience	2	18.2%	1	12.5%	3	15.8%
More than five years' experience	3	27.3%	3	37.5%	6	31.6%

Table 4: Number of years' experience as a business angel.

The majority of business angel respondents had investment experience in new business ventures, but where did they invest?

Informal investments are concentrated in Lisbon. This is true for both clubs. It is important to mention that Cascais is only 30 km from Lisbon. It is also relevant to mention that among the Cascais club there were twelve responses to this Question. One respondent signalled more than one answer, meaning that s/he had invested more than once in distinct geographic locations. A similar situation occurred in Lisbon.

In any case, the existing literature refers to the fact that business angels tend to invest not far from their own permanent place of residence.¹⁰ The evidence suggests that Portuguese informal investors tend to adopt a similar pattern of investment as their foreign counterparts, as shown in Table 5.

Investment place*	Club					
	Cascais (n=9)		Lisbon (n=6)		Total	
	n	%	n	%	N	%
North	0	0%	0	0%	0	0%
Lisbon Area	9	100.0%	6	100.0%	15	100.0%
Madeira Islands	0	0%	0	0%	0	0%
Centre	1	11.1%	0	0%	1	6.7%
Oporto	0	0%	0	0%	0	0%
Abroad	0	0%	0	0%	0	0%
South	2	22.2%	1	16.7%	3	20.0%
Azores Islands	0	0%	0	0%	0	0%

Table 5: Location of past and current investments. *Portugal is divided into seven areas: North, Centre, South, Azores Islands, Madeira Islands, Lisbon and Oporto.

As seen in Table 6, 64.3 percent of respondents mention an important motivation for investment is the detection of an interesting business opportunity. This was the most relevant reason given by respondents from both Lisbon and Cascais clubs.

¹⁰ See Aram (1989).

Investment motive	Club					
	Cascais (n=9)		Lisbon (n=5)		Total	
	n	%	n	%	n	%
Fun	1	11.1%	1	20.0%	2	14.3%
I sold a company before	2	22.2%	0	0%	2	14.3%
I had financial resources	0	0%	0	0%	0	0%
Diversification of portfolio	0	0%	1	20.0%	1	7.1%
Detected an interesting investment opportunity	6	66.7%	3	60.0%	9	64.3%

Table 6: Motivational factors leading to investment.

Following the geographical location of the investments and the different motivational factors behind the investment decisions, there is another pertinent question: What was the business situation of the informal investors when they took the decision to invest?

The prevalent answer to this question was that business angels were company owners at the time they decided to invest as business angels. It is interesting however that there is a similarity of answers provided by the two clubs.

What was your business situation like when you invested as a business angel?	Club					
	Cascais(n=9)		Lisbon (n=6)		Total	
	n	%	n	%	n	%
Company Owner	7	77.8%	4	66,7%	11	73.3%
Executive Director	1	11.1%	1	16.7%	2	13.3%
Non-Executive Director	0	0%	0	0%	0	0%
Top-Tier Manager	0	0%	0	0%	0	0%
Middle Manager	0	0%	1	16.7%	1	6.7%
Retired	1	11.1%	0	0%	1	6.7%

Table 7: Business situation when the investment took place.

The next issue relates to the amount of time, measured in hours, per week, that business angels devote to business activities that are not their main occupation. The answers provided by the members of the Lisbon club are, somehow similar to the ones of the informal investors linked to the Cascais club: less than five hours a week is the amount of time they plan to devote to business angel activities, which means, on average, an hour per day. It is interesting to note that

only two respondents, both of whom are from the Cascais club, wanted to devote more than ten hours a week to this activity, as shown in Table 8.

	Club					
	Cascais (n=9)		Lisbon (n=5) *		Total	
On average, on a weekly basis, how much time do you devote to business angels activities?	n	%	n	%	N	%
Less than 5 hours	6	66.7%	4	80.0%	10	71.4%
Between 5 and 10 hours	1	11.1%	1	20.0%	2	14.3%
Between 11 and 15 hours	1	11.1%	0	0%	1	7.1%
More than 15 hours	1	11.1%	0	0%	1	7.1%

Table 8: Time devoted per week to business angel activities. *One respondent from this club did not answer this question. The percentage shown in this column is calculated against the total of the answers and does not consider the number of the overall sample.

Another relevant factor is to assess the capacity of Portuguese business angels to establish partnerships with other business angels and with formal venture capital companies.

The results shown in Table 9 reveal significant differences between the two clubs. In fact, 53.3 percent of the overall respondents signalled they had had co-investment experience. All the respondents of the Lisbon club acknowledged co-investment experience, whereas in the Cascais club, the majority of respondents – 77.8 percent – had not had any co-investment experience, so far. Those who did signal co-investment experience have enunciated that it occurred solely with other business angels.

Moreover, respondents belonging to the Lisbon club said that they had made investments with formal venture capital companies and other business angels. Some of the respondents mentioned being involved in sophisticated partnerships involving other business angels and formal venture capital companies.

		Club					
		Cascais (n=9)		Lisbon (n=6)		Total	
		n	%	n	%	n	%
Have you had a co-investment experience before?	No	7	77.8%	0	0%	7	46.7%
	Yes	2	22.2%	6	100.0%	8	53.3%
What kind of co-investment did you have?	Invest together with formal venture capitalists	0	0%	1	16.7%	1	12.5%
	Invest along with other business angel(s)	1	50.0%	2	33.3%	3	37.5%
	Invest with venture capital and other business angels	0	0%	3	50.0%	3	37.5%

Table 9: Previous co-investment experience.

Up to this point, analysis of the generic profiles of the business angels belonging to the two different clubs in Portugal indicate that informal investors tend to be predominantly middle-aged males, with previous significant business experience in various economic sectors. These include finance, construction, and consultancy among the most cited, though there are differences between the two clubs.

In his research, Brettel mentions that 29 percent of business angels surveyed were age forty-five to fifty-four and 27 percent were aged between thirty-five and forty-four (Brettel 2002). In research produced in Singapore, 75 percent of respondents were aged between forty and fifty-nine (Hindle and Lee 2002). In Portugal, 57 percent of respondents were age between forty-five and sixty-five years, and 31 percent mentioned the interval of thirty-six to forty-five years.

In Germany, all the business angels involved in Brettel's research were male (Brettel 2002). In Singapore, also, 96 percent of respondents were male (Hindle and Lee 2002). In Portugal, 94.7 percent of the informal investors who participated in this research were male, too.

More than 70 percent of Portuguese informal investors who participated in the current research mentioned having between fifteen and twenty years' business experience. In Germany, according to Brettel, twelve and a half years was the average number of years' business experience for the business angels surveyed (Brettel 2002). The Portuguese respondents mentioned that they were company owners and 13.3 percent were executive-directors. Brettel mentioned that one of his findings was that two-thirds of German informal investors were active in corporate management (Brettel 2002). In Singapore, however, 72 percent surveyed business angels mentioned that they had management experience in their "own business" (Hindle and

Lee 2002: 174). Business angels who participated in a research project in Australia rated themselves as “general managers” and “people managers” (Hindle and Wenban 1999: 173).

It is interesting to note that 64 percent of Portuguese respondents mentioned the detection of a business opportunity as the primary motive for investment, while 14.3 percent mentioned that they had invested “for fun”. Brettel suggests that the most important motives for investment in Germany are fun, to support young companies, and to attain company growth (Brettel 2002).

The following section assesses the profile of past/present investments, in terms of the amounts invested and the economic sector where investments were made. Although being low in absolute terms, the number of investments has been increasing and is deemed to continue growing in the future; this allows assessment of potential business opportunities. The implications of these findings are discussed in the final section.

Analysis to answers of Section 2: Experienced Business Angels

In Section 2, experienced business angels were asked a number of questions regarding their past and current investments.

The Literature mentions that, on average, informal investment per project in the United States lies at between \$20,000 and \$50,000 (Haar et al 1988), whereas in the United Kingdom, the average investment is of £50,000 (Mason and Harrison 1996). How much, on average, have Portuguese business angels invested, per project?

In the United States, informal investors tend to invest in the start-up phase (Haar et al. 1998). Another researcher mentioned that these investors are willing to invest both in the seed and in the start-up phases (Fears and Wetzel 1990). Another researcher mentioned that these investors (business angels) risk their own assets in early risk ventures (Aram 1989). At which phase of the entrepreneurial venture are Portuguese business angels willing to invest? Furthermore, Aram mentioned that in the United States, informal investors “generally invest within 50 miles of their homes or offices” (Aram 1989: 333). Does the same pattern apply to Portuguese business angels?

Research in the United Kingdom addressed the topic of co-investment (Harrison and Mason 1992). The same authors mentioned in another piece of research that there was evidence to

suggest that there has been fluent communications between informal investors and venture capitalists in “start-up and early stage investment” (Harrison and Mason 2000: 240). What do Portuguese informal investors think of co-investment?

Section 2 was developed specifically to prompt answers to these themes and other related topics. At the end of this section, there is a summary of the findings, together with some international comparisons taking the results of similar research carried out in other countries.

According to the information provided by business angels (Table 10), 67.7 percent of the respondents had invested equal or less than €100,000 and 13 percent of the respondents, invested more than €200,000. Those who had invested more than €300,000 came from the Lisbon Club.

In any case, it is evident that the investors, in both clubs, tend to concentrate on the lower end of the Table, meaning that, in aggregate terms, two-thirds of investments are lower than €100,000, per project.

Initial investment	Club					
	Cascais (n=9)		Lisbon (n=6)		Total	
	n	%	n	%	n	%
<€25,000	2	22.2%	2	33.3%	4	26.7%
€25,001–€50,000	1	11.1%	2	33.3%	3	20.0%
€50,001–€100,000	3	33.3%	0	0%	3	20.0%
€100,001–€150,000	1	11.1%	1	16.7%	2	13.3%
€150,001–€200,000	0	0%	0	0%	0	0%
€200,001–€300,000	2	22.2%	0	0%	2	13.3%
>€300,00	0	0%	1	16.7%	1	6.7%

Table 10: Amount invested in past and current investments.

After considering the amounts invested, one has to consider the sectors in which the investments were made. Which were the most attractive investment sectors for the business angels?

Once again, in total terms, and according to the evidence provided in Table 11, the most attractive sectors are tourism and leisure (28.6 percent), followed by computers and IT and telecommunications, both of which represent about 21.4 percent of overall investments. In the Cascais club, there is a concentration on IT, whereas in the Lisbon club the investments are concentrated in telecoms, tourism and leisure.

	Club					
	Cascais (n=8)		Lisbon (n=6)		Total	
In which industry have you invested?	n	%	n	%	n	%
Financial Sector	0	0%	0	0%	0	0%
Construction	0	0%	0	0%	0	0%
Industrial Products and Services	1	12.5%	0	0%	1	7.1%
Electronics	0	0%	0	0%	0	0%
Telecoms	0	0%	3	50.0%	3	21.4%
Agriculture and Fisheries	0	0%	0	0%	0	0%
Energy	0	0%	0	0%	0	0%
Logistics and Transports	0	0%	0	0%	0	0%
Computers and IT	3	37.5%	0	0%	3	21.4%
Tourism and Leisure	2	25.0%	2	33.3%	4	28.6%
Consultancy	0	0%	0	0%	0	0%
Retailing	1	12.5%	0	0%	1	7.1%
Biotech and Pharmacy	1	12.5%	0	0%	1	7.1%
Health	0	0%	0	0%	0	0%
Others	0	0%	1	16.7%	1	7.1%

Table 11: Sectors where investments took place.

Now there is a clear picture of the most attractive investment sectors for Portuguese business angels, but in which phase of the project-development cycle did they prefer to invest?

In aggregate terms, the projects that received support from the business angels were in the pre-seed¹¹ (50 percent) or seed phases¹² (42.9 percent). In fact, business angels tended to concentrate their own investments on the pre-seed and seed phases, with a special concentration in the pre-seed phase. Apparently, the respondents from the Cascais club tended to invest earlier than the business angels linked to the Lisbon club, as shown in Table 12.

¹¹ Pre-seed phase, meaning that there is no business plan, just a business idea.

¹² Seed phase, meaning that the product is in development but there are no sales.

At which phase of the business project did you invest?	Club					
	Cascais (n=9)		Lisbon (n=5)		Total	
	n	%	n	%	n	%
Pre-seed	5	55.6%	2	40.0%	7	50.0%
Seed	3	33.3%	3	60.0%	6	42.9%
Start-up phase*	0	0%	0	0%	0	0%
Early-stage**	1	11.1%	0	0%	1	7.1%
Later-/Growth stage***	0	0%	0	0%	0	0%

Table 12: Phase entered on business project. *Start-up phase: some marketing done; start selling. **Early stage – selling ongoing – break-even point not yet reached. ***Later-/Growth-stage: business expanding and profitable.

Business angels tend to invest in the early stages of the project’s development. But for how long do business angels remain linked to the investment before exiting the project? Almost 80 percent of the business angels that responded to the questionnaire had not exited at the time;¹³ they were still involved in their first investment project. For those who have already exited, there is evidence of dissimilar experiences. In one case, the investor stayed with the project for less than three years, whereas others remained for more than five years, as shown in Table 13.

On average, for how long have you invested, before exiting the project?	Club					
	Cascais (n=9)		Lisbon (n=6)		Total	
	n	%	n	%	n	%
This is my first project	6	66.7%	6	100.0%	12	80.0%
Between 1 and 3 years	1	11.1%	0	0%	1	6.7%
Between 4 and 5 years	0	0%	0	0%	0	0%
More than five years	2	22.2%	0	0%	2	13.3%

Table 13: How long did the investor stay in the project?

The majority of respondents answered that they were involved in their first project, meaning that they had no previous experience. At this point, it is interesting to discover how long for they have been investing.

Both for the informal investors linked to the Lisbon club as well those connected to the Cascais club, the initial investment had taken place less than three years before answering the questionnaire, which may explain why in most cases the exit phase had not yet taken place.

¹³ Exit phase is when the business angel sells his or her shareholder position in the business project.

	Club					
	Cascais (n=7)		Lisbon (n=6)		Total	
How long have you been investing?	n	%	n	%	n	%
Less than one year	1	14.3%	0	0%	1	7.7%
More than a year and less than three years	4	57.1%	4	66.7%	8	61.5%
More than three years	2	28.6%	2	33.3%	4	30.8%

Table 14: For how long have the investors been investing?

The majority of business angels had not exited from their first investment. Therefore, it is premature to evaluate the overall profitability of the different investments. For those who have already exited, however, this assessment it is possible, and there was evidence of mixed experiences. There is one response per level: profit expectations for two investors were met; for the remainder, their profitability expectations had not been met, as Table 15 illustrates.

	Club					
	Cascais (n=9)		Lisbon (n=6)		Total	
How do you evaluate the return on your investment?	n	%	n	%	n	%
I have not exited yet	5	55.6%	5	100.0%	10	71.4%
Well above initial expectations	0	0%	0	0%	0	0%
Above initial expectations	1	11.1%	0	0%	1	7.1%
In line with my initial expectations	1	11.1%	0	0%	1	7.1%
Below my initial expectations	1	11.1%	0	0%	1	7.1%
Well below my initial expectations	1	11.1%	0	0%	1	7.1%

Table 15: How do investors evaluate their return?

Tax incentives may have positive impact on investments according to 85.7 percent of the respondents. To this value, one must add 7.1 percent representing all those who agreed with the statement, but less enthusiastically. The sum, as seen in Table 16, represents 92.8 percent of the overall respondents, which clearly expresses the current sentiment among business angels towards the importance of tax incentives in the development of this emerging industry in Portugal.

In your opinion, do tax incentives have a positive impact on business angel investments?	Club					
	Cascais (n=9)		Lisbon (n=6)		Total	
	n	%	n	%	n	%
Totally agree	7	77.8%	5	100.0%	12	85.7%
Agree	1	11.1%	0	.0%	1	7.1%
Disagree	0	.0%	0	.0%	0	.0%
Totally disagree	1	11.1%	0	.0%	1	7.1%
Do not have an opinion	0	.0%	0	.0%	0	.0%

Table 16: What is the impact of tax incentives?

There is apparent consensus concerning the importance of tax incentives in fostering the development of the business angel industry. The involvement of business angels – if indeed they are involved at all – in the management of the business they invest in is the subject of the next topic; almost two-thirds of business angels do participate in the management of the business project in which they have invested.

Were you involved in the management team of the business project when you invested as a business angel?	Club					
	Cascais (n=9)		Lisbon (n=6)		Total	
	n	%	n	%	n	%
Yes	6	66.7%	4	66.7%	10	66.7%
No	3	33.3%	2	33.3%	5	33.3%

Table 17: Were the investors involved in the management team?

The majority of the questionnaire respondents are involved in the management team of the project in which they invested. The following question relates to which position of management within the project.

Business angels from the Cascais club – those with previous investment experience – had predominantly non-executive management positions in the business/project within which they had invested. Their counterparts from the Lisbon club, however, tended to occupy other non-specific management positions within the business/projects in which they had invested.

From the alternatives provided below, please select the one that best defines the position you occupied or have been occupying	Club					
	Cascais (n=6)		Lisbon (n=4)		Total	
	n	%	n	%	n	%
Member of the executive board	2	33.3%	1	25.0%	3	30.0%
Non executive position	3	50.0%	1	25.0%	4	40.0%
Other position in management	1	16.7%	2	50.0%	3	30.0%

Table 18: What management position does the investor hold?

Summary

The majority of business angels on average invest no more than €100,000 per project.

Telecoms, computer-related/IT and tourism are among the most cited investment sectors.

Although there are differences between the two clubs, business angels prefer to invest in the pre-seed and seed phases. The majority of the investors participate in the management team of the projects in which they have invested.

According to this research, almost 67 percent of the respondents invested an amount equal to or less than €100,000 per project, and 20 percent of them have invested more than €50,000 and less than €100,000. These findings are somewhat compatible with the relevant literature mentioned above. Although the final decision rests on the informal investor, the dynamism of the club in sourcing activities may bring in more business ventures for assessment.

The relevant literature states that informal investors tend to invest in the seed- and start-up phases. According to this research, 92 percent of the surveyed Portuguese business angels invested in the pre-seed and seed phases; of these 80 percent of respondents mentioned that they are currently involved in their first investment project, meaning that they have not yet exited. “Exit” is understood to mean the process by which the investor sells his own equity position in the business venture. For those who have already exited, among the investors surveyed, 61.5 percent mentioned that they had remained in the project no more than three years, while 30.8 percent remained more than three years. In Finland, according to Lumme and Mason’s research, the median average investment was four years (1996).

A further interesting finding is that business angels want to hold management positions in the projects in which they have invested. This does make sense for since they have invested in a new venture investors want a management position, although not an executive one.

In terms of profitability, there are mixed signals: 50 percent mentioned that their returns were in line, above (higher than expected) or well above (much higher than expected) initial expectations. The remaining 50 percent of the surveyed business angels said that their returns were below or well below initial expectations. In Finland, one-third of the surveyed investors mentioned that they had had positive returns. In the United States, according to Wiltbank's research, two-thirds of angel investments fail (2005). In another study produced by Mason and Harrison in the United Kingdom, 34 percent of surveyed investors exited the business with losses and 23 percent experienced an Internal Rate of Return (IRR) higher than 50 percent (2002a).

The following section will provide the responses given by informal investors who have still not had any investment experience; the replies of these potential business angels will be analysed. The implications of the findings will then be discussed later in this Document.

Analysis of the answers to Section 3: Opinion of potential business angels

In Section 3 of the Questionnaire potential business angels, that is, individuals without any previous investment experience were asked a number of questions. The results of their answers are discussed below.

We already have some information about the experienced business angels but the clubs also have members who still do not have investment experience; these are the so-called potential business angels, as they encapsulate potential to invest.

Among the questions asked in Section 3 of the Questionnaire were: When do you plan to invest? How much do you plan to invest? What do you think about co-investment? And, In which phase of the business venture do you prefer to invest?

This information about potential business angels is necessary in order that that researcher covers all the segments within the clubs to gain consistent insight into the potential for investment that exists in these two clubs. This information is relevant in order to assess the potential investment in equity, which is relevant in order to determine the business potential from the point of view of the bank. This is because the different ventures will require equity, provided by informal investors, and debt, which banks provide.

There is no evidence of past research about potential business angels. Questions include whether they think differently from experienced informal investors and whether they are they really committed to investments. The Questionnaire addressed some of these questions to gain answers from potential business angels. The results of Section 3 of the Questionnaire, which are presented at the end of this section, will then be followed by the critical analysis of these results and their implications in conclusion of this Document.

The analysis will start by asking “would-be” business angels the following: When do you think your first investment will take place?

When do you think your first investment will take place?	Club (21)					
	Cascais (n=3)		Lisbon (n=3)		Total	
	n	%	n	%	n	%
Now	0	0%	0	0%	0	0%
Within a year	2	66.7%	2	66.7%	4	66.7%
Between 2 and 3 years	1	33.3%	1	33.3%	2	33.3%
In more than 3 years	0	0%	0	0%	0	0%

Table 19: When will the potential business angel invest?

Precisely, two-thirds of respondents mentioned their willingness to invest shortly (within a year) and all respondents considered that their future typical investment would take place in less than three years. Analysis will determine what amount these “would-be” business angels are considering investing.¹⁴

Table 10 showed that in aggregate terms, two-thirds of informal investors with investment experience had invested about €100,000, per project. What will be the idea of potential business angels? Are there significant differences from club to club?

Potential business angels were asked to give a figure (in Euros) to indicate how much they would consider investing in their typical future investment. This was an important question for two reasons: to compare the given responses with those provided by experienced business angels; to compare them with the reality existing in other geographies.

¹⁴ This part of the Questionnaire should have been answered by four business angels from each club, all those who answered “No” in Question 4. However, one business angel from each club did not answer, which means that this sub-sample was reduced to six answers.

From the respondent's answers, it is possible to conclude that informal investors from the Cascais club would consider investing between €50,000 and €100,000, per project. Although there is more variability in the answers provided by the business angels from the Lisbon club. The maximum amount considered, according to a respondent linked to the Lisbon club, was €150,000, whereas the maximum amount considered in the Cascais club was €100,000.

On the other hand, all potential investors estimate devoting less than ten hours a week to business angel activities.

		Club					
		Cascais (n=3)		Lisbon (n=2)		Total	
		N	%	n	%	n	%
How much do you plan to invest?	<€25,000	0	0%	1	50.0%	1	20.0%
	€25,001– €50,000	0	0%	0	0%	0	0%
	€50,001–€100,000	3	100.0%	0	0%	3	60.0%
	€100,001–€150,000	0	0%	1	50.0%	1	20.0%
	€150,001– €200,000	0	0%	0	0%	0	0%
	€200,001–€300,000	0	0%	0	0%	0	0%
	>€300,00	0	0%	0	0%	0	0%
How many hours, on average, do you expect to devote to business angel activities per week?	Less than 5 hours p.w.	1	33.3%	1	50.0%	2	40.0%
	Between 5 and 10 hours p.w.	2	66.7%	1	50.0%	3	60.0%
	Between 11 and 15 hours p.w.	0	.0%	0	.0%	0	.0%
	More than 15 hours p. w.	0	.0%	0	.0%	0	.0%

Table 20: potential business angels' investment budgets.

Having considered variables such as the time-frame of future investments and the investment amount planned, it is now time to consider another relevant variable: the geographic locations of future typical investments. The profile shown in Table 21 indicates the concentration of investments in the Lisbon area, which is compatible with the information provided by experienced business angels as previously shown in Table 5.

	Club					
	Cascais (n=2)		Lisbon (n=2)		Total	
Where would you like to invest?	n	%	n	%	n	%
North	0	0%	0	0%	0	0%
Lisbon Area	2	100.0%	2	100.0%	2	100.0%
Madeira Islands	0	0%	0	0%	0	0%
Center	0	0%	0	0%	0	0%
Oporto	0	0%	0	0%	0	0%
Abroad	0	0%	0	0%	0	0%
South	0	0%	0	0%	0	0%
Azores Islands	0	0%	0	0%	0	0%
No idea yet	0	0%	0	0%	0	0%

Table 21: In which location would potential business angels like to invest?

As Table 1 showed, most business angels live in the Lisbon area and tend to concentrate their investments in Lisbon, Table 5 illustrated. The capital will attract future typical investments, but the question is, in which sector?

Table 22 shows that no one from the Cascais club answered this question. Only two business angels from the Lisbon club answered it. One mentioned that the most likely investment sector was in industrial products and services, while the other respondent mentioned IT as the least interesting sector in which to invest.

		Club*					
		Cascais (n=0)		Lisbon (n=2)		Total	
		n	%	n	%	N	%
Industrial Products and Services	More Plausible	0	0%	1	50.0%	1	50.0%
	Least Plausible	0	0%	0	0%	0	0%
Computers and IT	More Plausible	0	0%	0	0%	0	0%
	Least Plausible	0	0%	1	50.0%	1	50.0%

Table 22: In which sectors do potential business angels see themselves investing? *The Questionnaire did offer potential business angels and business angels the possibility of not responding to any questions they do not wish to answer.

Regardless which club the potential business angel belonged, there answers indicated that they would want to participate in the management team of the business project in which they were involved, and they will invest their own financial resources as informal investors, as shown in Table 23.

Would you like to participate in the management team of the project in which you will invest as a business angel?	Club					
	Cascais (n=2)		Lisbon (n=2)		Total	
	n	%	n	%	n	%
Yes	2	100.0%	2	100.0%	4	100.0%
No	0	0%	0	0%	0	0%

Table 23: Potential informal investors and management team – I.

However, while informal investors from the Cascais club do not mention a specific place within the management team, members from the Lisbon club mentioned that they would like to participate in a non-executive position, as shown in Table 24.

From the alternatives provided below please select the one you consider most likely	Club					
	Cascais (n=2)		Lisbon (n=2)		Total	
	n	%	n	%	n	%
Member of the Executive Board	0	0%	0	0%	0	0%
Non-Executive Position	0	0%	2	100.0%	2	50.0%
Other Management Positions	2	100.0%	0	0%	2	50.0%

Table 24: Potential informal investors and management team – II.

Despite the low response rate, co-investments are more likely with potential business angels than they were among active business angels who were already investing. Partnerships with formal venture capital companies seem an unlikely proposition, unless other business angels are involved; this was true for Cascais business angels and their counterparts from the Lisbon club.¹⁵ Partnerships with other business angels are an attractive scenario for business angels in both clubs, as Table 25 showed.

This information is compatible with the data collected in Table 9, where experienced informal investors mentioned their preference for co-investment experiences with other business angels, rather than with formal venture capital companies, unless other business angels were involved, too.

In any case, as seen in Table 9, business angels from the Lisbon club seem to be relatively more interested in partnerships with other business angels than their counterparts from the Cascais

¹⁵ More information about the venture capital industry in Portugal is available at www.apcri.pt [accessed 25 May 2009].

club were. This preference is expressed in the results presented in Table 25, which brings together the results of the responses given to four different and independent Questions.

		Club					
		Cascais (n=2)		Lisbon (n=2)		Total	
		N	%	n	%	n	%
Is it likely for you to be involved in a co-investment project?	Highly Likely	0	0%	1	50.0%	1	25.0%
	Likely	2	100.0%	1	50.0%	3	75.0%
	Unlikely	0	0%	0	0%	0	0%
	Highly Unlikely	0	0%	0	0%	0	0%
Co-investment with formal venture capital companies	Most Likely	0	0%	0	0%	0	0%
	Most Unlikely	0	0%	2	100.0%	2	100.0%
Co-investment with other business angel(s)	Most Likely	1	100.0%	1	100.0%	2	100.0%
	Most Unlikely	0	0%	0	0%	0	0%
Co-investment with both formal venture capital companies and business angel(s)	Most Likely	0	0%	1	100.0%	1	50.0%
	Most Unlikely	1	100.0%	0	0%	1	50.0%

Table 25: Would investors like to participate in co-investments?

Informal investors linked to the Cascais club prefer to invest during the pre-seed phase, whereas their counterparts from Lisbon, apparently, show some preference for investing at a later stage, as shown in Table 26.

		Club					
At which phase of the business project would you like to invest?		Cascais (n=2)		Lisbon (n=2)		Total	
		n	%	n	%	n	%
Pre-seed		1	50.0%	0	0%	1	25.0%
Seed		1	50.0%	0	0%	1	25.0%
Start-up		0	0%	1	50.0%	1	25.0%
Early Stage		0	0%	1	50.0%	1	25.0%
Later/Growth		0	0%	0	0%	0	0%

Table 26: At which phase would business angels like to invest?

As already seen, there is agreement about the importance of fiscal incentives in the development of the emerging Portuguese business angel industry; a conclusion both compatible with the data collected from informal investors with previous investment experience and shown in Table 18.

	Club					
	Cascais (n=2)		Lisbon (n=2)		Total	
In your opinion, do tax incentives have a positive effect on business angel investments?	n	%	N	%	n	%
Totally agree	2	100.0%	2	100.0%	4	100.0%
Agree	0	0%	0	0%	0	0%
Disagree	0	0%	0	0%	0	0%
Totally disagree	0	0%	0	0%	0	0%
Do not have an opinion	0	0%	0	0%	0	0%

Table 27: Do tax incentives have a positive impact on angel investments?

Summary

Relevant information regarding business angel profiles as well as their investment profiles was collected from the previous three sections. The following section gathers information about the expected future investments of informal investors. The evidence provided by the responses, though in small number, suggests that business angels' future typical investments will take place within the next three years and that the amount expected to be invested, per project, will not exceed €150.000. Moreover, business angels plan to invest not far from their homes. In general, these investors want to invest in the pre-seed and seed phases, despite the differences that existed in the responses provided by the clubs.

All potential business angels surveyed expected to invest within the next three years, although 66 percent of the business angels surveyed suggested that they would invest within the next twelve months. This information carries a message that informal investors are eager to invest.

Other relevant information includes the expected amount of time that business angels will devote to business angel activities in the future: between five and ten hours per week.. All the informal investors surveyed expressed their intention to devote less than ten hours a week to business angel activities, which would mean less than two hours a day. On the other hand, most respondents wanted to hold management positions within the structure of the business ventures in which they had invested. While the majority of respondents did not want to hold executive responsibilities, since investors have accepted the risk of investing, they do want to hold some kind of management responsibility.

Potential business angels are keen to share risks with other informal investors, or even, with formal venture capital companies. Experienced business angels expressed a similar opinion in the last section.

The implications of these findings will be discussed below, but now it is time to study the relationship between business angels and their clubs. This is the fourth and last Section, of the Questionnaire.

Analysis of the answers to Section 4: Relationship between business angels and their clubs

This section analyses the results of respondents' answers to the questions included in Section 4 of the Questionnaire. These questions included, for example, Question 1, asking how long business angels had been linked formally to their clubs. The Cascais club, founded in 2006, has a response profile that is somewhat different from that of the Lisbon club, which was formed in 1999. In fact, 85.7 percent of the respondents from the Lisbon club had been members of the club for more than two years whereas only 9.1 percent of their counterparts from the Cascais club had been members for the same time. Apparently, in Cascais, the recruitment of new members has been intense in recent times. In fact, five respondents had not been members of the club for more than a year, and five other respondents have not been members for more than two years.

At the other club, the situation, apparently, is more stable.

How long have you been a member of the business angel club?	Club					
	Cascais (n=11)		Lisbon (n=7)		Total	
	n	%	n	%	N	%
Less than a year	5	45,5%	1	14,3%	6	33,3%
More than 12 months and less than 2 years	5	45,5%	0	0%	5	27,8%
More than 2 years	1	9,1%	6	85,7%	7	38,9%

Table 28: How long have informal investors been members of their clubs?

It is clear that respondents from the Cascais club have been members for less time than those at the Lisbon club. The following task is to assess how often business angels participate in events promoted by their clubs. In both cases, participation in events is optional. The majority of members of both clubs do participate in some types of events. Respondents from the Lisbon club, who, on average, are older than their counterparts of the Cascais club, tend to attend more

events than their Cascais counterparts, who in turn, are keener to attend special events. Table 29 details the analysis.

Having analysed the membership, age-profiles, and the frequency of participation in events promoted by their own organizations, another relevant topic relates to the way that clubs communicate with their business angel membership.

How often do you attend events promoted by your own business angel club?*	Club					
	Cascais (n=11)		Lisbon (n=7)		Total	
	n	%	n	%	n	%
Attend all the events promoted by my club	1	9,1%	2	28,6%	3	16,7%
Attend the majority of events promoted by the club	2	18,2%	1	14,3%	3	16,7%
I have a busy agenda. I only attend a few events	2	18,2%	3	42,9%	5	27,8%
I only attend special events	4	36,4%	1	14,3%	5	27,8%
I do not attend any events promoted by my club.	2	18,2%	0	0%	2	11,1%

Table 29: How often do business angels attend events at their clubs? *Clubs promote events regularly, including lunches and/or dinners, to present new business ventures (elevator pitches).

Table 30 below synthesises the points of view of business angels regarding information provided by their clubs. In fact, the majority of respondents believe that clubs should send periodic information about, for example, events, membership, news, entrepreneurial finance issues, and tax issues to their members, preferably electronically.

On the other hand, according to respondents, there is no consensus about how often information should be circulated although it seems that business angels are not keen to receive information frequently. On an aggregate basis, business angels prefer to receive information from their clubs about every six months.

		Club					
		Cascais (n=11)		Lisbon (n=7)		Total	
		n	%	n	%	n	%
Should clubs send information to their members periodically?	Totally agree	8	72.7%	4	57.1%	12	66.7%
	Agree	3	27.3%	3	42.9%	6	33.3%
	Disagree	0	0%	0	0%	0	0%
	Totally disagree	0	0%	0	0%	0	0%
What would be the most efficient way to distribute information to club members?	Using electronic means	10	90.9%	5	71.4%	15	83.3%
	Paper based means	0	0%	0	0%	0	0%
	Both electronic and paper based means.	1	9.1%	2	28.6%	3	16,7%
	Other forms	0	0%	0	0%	0	0%
What would be the preferred periodicity to distribute information to club members?	Monthly basis	1	9.1%	2	28.6%	3	16.7%
	Trimester basis	2	18.2%	2	28.6%	4	22.2%
	Semester basis	4	36.4%	2	28.6%	6	33.3%
	Other periodicity	4	36.4%	1	14.3%	5	27.8%

Table 30: Flow of information between clubs and club members.

Summary

Because the Cascais club opened relatively recently, in 2006, on average, it has a lower period of membership than the Lisbon club. There is a more diversified response profile when considering the attendance to events promoted by the two clubs. In fact, Cascais members tend to concentrate their participation only in special events, while members of the Lisbon club apparently participate in more events generally. Furthermore, business angels of both clubs agree that clubs should provide periodic information, but not too often, preferably electronically.

This is the end of the first level of analysis of the data provided in response to the Questionnaire. The second level of analysis is discussed in the following section.

Analysis of the Results: Second Level

After completing analysis – in absolute as well as in relative terms – of the answers business angels and potential business angels of the two different clubs gave to the twenty-eight questions in the Questionnaire, the second level of analysis is set out below.

Among the findings provided by Section 1, there is apparent similarity between the responses given by experienced informal investors and potential business angels to a number of the questions. This section aims to confirm – or not – this assertion by formulating a null hypotheses and then using the Chi-squared test.

The informal investor clubs have among their members both experienced business angels and inexperienced business angels. By experienced business angels, it is understood that these members have investment experience; all those who already have put their own financial assets into a new business venture. On the other hand, inexperienced business angels are those club members still without this business experience.

Therefore, experienced business angels will use their investment experience to respond to the Questionnaire, whereas inexperienced investors will respond by bearing in mind their future typical investment project.

The Questionnaire addressed these two segments, with a number of similar questions asked across the two different sets of members, that is, both experienced and inexperienced investors. This section will compare the answers given by these two sets to a group of five similar questions. At the end of this section, a summary of the most relevant findings is provided. Why is this test necessary? Apparently, from the first level of analysis, potential business angels tend to respond in a similar way to experienced business angels. In this section, the researcher attempts to explore these apparent linkages by using the Chi-squared test of independence, as this test, as Fisher argues: “informs us as to whether the collected data are close to the value considered to be typical and generally expected, and whether two variables are related to each other” (Fisher 2004: 187). Jankowicz considered the Chi-square test to be “so useful when you cross-tabulate your data (breaking down the answers to one question by the answers to another); or for looking at how two subsets compare” (Jankowicz 2005: 311). Five questions were submitted to members of business angel clubs, while segmenting the population into two groups: experienced and inexperienced business angels.

The questions – to which the answers are compared – are the following:

- a) “Amount invested?” and “Planned amount to be invested?”
- b) “At what stage of the business project did you invest?” and “At which stage of the business project would you like to invest?”

- c) "In your opinion, might tax incentives have a positive impact in business angel investments?" and "In your opinion, might tax incentives have a positive impact on business angel investments?"
- d) "Have you been involved in the management team of the business projects where you have invested as a business angel?" and "Would you like to participate in the management team of the project where you are considering investing as a business angel?"
- e) "From the alternatives provided below, please select the one that best defines the position you have occupied or have been occupying?" and "From the alternatives provided below, please select the one that best defines the position you consider most likely for you to occupy?".

The results of these questions are detailed below using the Chi-square test of independence. At the end of the section the conclusions will be discussed.

Amount Invested

A comparison was made between the answers given to similar questions by the two segments of respondents. As mentioned above, a Null hypothesis will be set and then the Chi-square test of independence will evaluate it.

In the Questionnaire, active business angels were asked about the amounts they had invested and prospective business angels were asked about the amounts they would consider investing in future typical investments. The null hypothesis is:

H_0 : The distribution of business angels by the amount of investment is similar whether considering those who have already invested and those who are still planning to invest.

The null hypothesis was tested and the sigma obtained = 0.282 > 0.05. Therefore the null hypothesis could not be rejected.

	Amount invested		Planned amount to be invested	
	n	%	n	%
<€25,000	4	26.70%	1	20.00%
€25,001–€50,000	3	20.00%	0	0%
€50,001–€100,000	3	20.00%	3	60.00%
€100,001–€150,000	2	13.30%	1	20,00%
€200,001–€300,000	2	13.30%	0	0%
>€300,00	1	6.70%	0	0%
Chi-squared test of independence	X		Sig	
	6.252823		0.28239	

Table 31: Relationship between past and future investments.

Phase of Investment

The answers obtained from Question 12 were compared with those provided for Question 24. Question 24 asked potential business angels which of the different business-development phases they think they would be most likely to invest. To informal investors, with previous investment experience, a similar question was asked: Question 12. The null hypothesis is the following:

H_0 : the distribution of business angels between the different phases of the project's life cycle, is similar whether they have already invested or not.

The null hypothesis was tested and the result obtained was 0.203201, which is higher than 0.05. Therefore the rejection of the null hypothesis was not possible.

	At what stage of the business project did you invest?		At which stage of the business project would you like to invest?	
	n	%	n	%
Pre-seed	7	50.00%	1	25.00%
Seed	6	42.90%	1	25.00%
Early Stage	1	7.10%	1	25.00%
Chi - squared test of independence	X		Sig	
	7.171415		0.208201	

Table 32: Stage of past and expected future investments.

Effects of tax incentives on the Portuguese business angel industry

Again, the answers to Question 15 were compared with the answers provided to Question 25. Experienced as well as inexperienced business angels were asked about the effects they thought tax incentives might have in developing the emergent business angel industry in Portugal. The null hypothesis is:

H_0 : The distribution of the business angels by the different levels of agreement or disagreement mentioned in the first column is similar whether the business angels have already invested or not.

The observed level of significance is above 0.05 percent with a level of confidence of 95 percent. Therefore the null hypothesis could not be rejected.

	In your opinion, might tax incentives have a positive impact on business angel investments?		In your opinion, might tax incentives have a positive impact on business angel investments?	
	n	%	n	%
Totally agree	12	85.70%	4	100.00%
Agree	1	7.10%	0	0%
Totally disagree	1	7.10%	0	0%
		X	Sig	
Chi-squared test of independence		2.8852	0.7177	

Table 33: Expected impact of tax incentives.

Management Team

Actual business angels were asked if they had participated or not in the management teams of the business projects in which they had invested. “Would-be” business angels were asked a similar question. The answers given to Question 16a were compared with answers given to question 22a. The null hypothesis is:

H_0 : The distribution of business angels whether they are willing to participate in the management team of the projects in which they have invested, or plan to invest, is similar.

The significance is higher than 0.05 percent. Therefore, with 95 percent confidence, the null hypothesis could not be rejected.

	Have you been involved in the management team of the business projects you have invested in as a business angel?		Would you like to participate in the management team of the project where you consider yourself investing as a business angel?	
	n	%	n	%
Yes	10	66.70%	4	100.00%
No	5	33.30%	0	0%
Chi-squared test of independence				
			X	Sig
			7.9751	0.1576

Table 34: Past and future management teams.

Which position on the management team?

In the following Table, two sets of samples were compared. In column one, are the answers from the business angels who have had previous investment experience. In the other column, are the answers from business angels who do not yet have investment experience. The questions have to do with the management positions business angels would like to take on in the projects in which they have invested. The null hypothesis is:

H₀: Business angels who have invested and those who will invest in the future will want to have similar business positions with similar probability.

Using the Chi-squared test of independence, the significance value associated to this test is higher than 0.05, therefore the null hypothesis could not be rejected.

	From the alternatives below, please select the one that best defines the position you have occupied or are occupying?		From the alternatives below, please select the one that best defines the position you consider most likely to occupy?	
	n	%	n	%
Member of the executive board	3	30.00%	0	0%
Non-executive position	4	40.00%	2	50.00%
Other position in management	3	30.00%	2	50.00%
Chi-squared test of independence			X	Sig
			5.1331	0.3998

Table 35: Which position on the management team?

Summary

In this section, five similar questions were asked among two different segments of business angel club members: those with previous investment experience as a business angel and those without investment experience as a business angel.

In conclusion, among the five tests performed, it was not possible to reject the stated null hypothesis in any of them. This exercise was based on a limited number of information: nineteen responses from two different business angel clubs. An alternative is to consider the involvement of more Portuguese business angels, eventually all of them, later in this research, using the same Questionnaire. Even if the response rate remains low, however, the number of respondents in absolute terms will increase, increasing therefore the consistency, validity and reliability, of the findings. In two cases, however, the observed sigma was < 0.20 , which means, that further analysis should be done in the future.

In Section 1, the answers provided by experienced business angels were similar to those given by members without investment experience. Section 2 was designed to provide further evidence to either support or deny the assertion that emerged from analysis of the results at Level one. The evidence provided by the second level of analysis tends to support the claim that members of clubs, whether they have investment experience or not, tend to share opinions and beliefs. The implication of these results will be discussed below.

Analysis of the Results: Third Level – Correspondence

The main objective is to analyse a possible relationship between nominal variables. Figure 8 (below) was formed with two dimensions. On the X-axis – dimension one – two distinct variables were considered and included: age, and the number of years of professional experience. On the Y-axis – dimension two – four variables were considered: time devoted to business angel activities (on a weekly basis), motivational factors behind investment; sector in which investment took place; and the phase of the project's development cycle when the decision to invest was taken.

Discrimination Measures

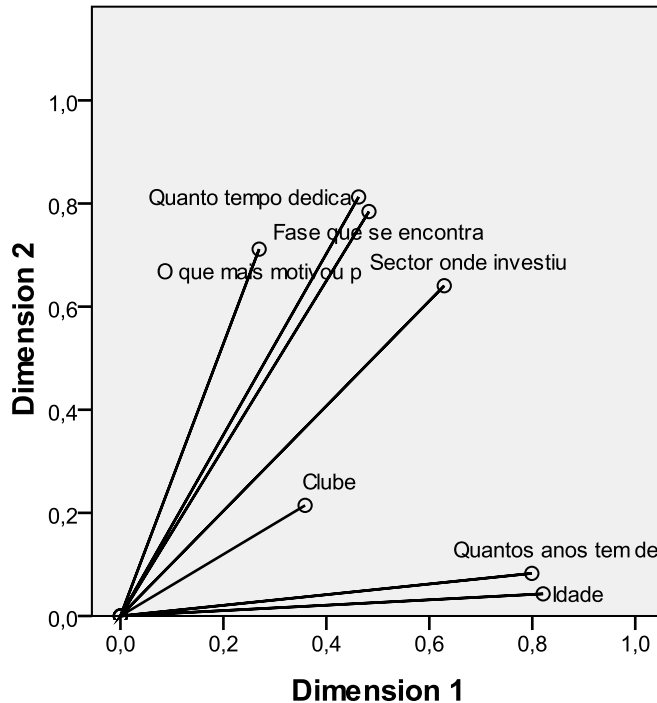


Figure 8: Discrimination measures diagram. Translations from Portuguese: Quanto tempo dedica (How much time do you devote to business angels activities?); Clube (Club); Quantos anos tem de experiência (How many years of business experience do you have?); Idade (How old are you?); Fase em que se encontra (In which phase of the project life cycle did you invest?); O que mais o motivou a investir? (What were your main motivational factors?); Em que sector (In which sector did you invest?).

According to Burglear (2005) this technique, “measures the internal consistency of responses to separate questions designed to generate scores that could be combined to give an overall assessment of the respondents’ abilities or attitudes” (Burglear 2005: 612). Using the same line of reasoning, Bryman and Bell argue that while Cronbach’s Alpha is “commonly used to test internal reliability” they add that, “A computed alpha coefficient will vary between 1 (denoting perfect internal reliability) and zero (denoting no internal reliability). The figure 0.80 is typically employed as a rule of thumb to denote an acceptable level of internal reliability” (2007: 164).

After construction of the diagram using Cronbach’s Alpha, the internal consistency of the Questionnaire was tested, the results of which can be seen in Table 36, below. The final values obtained are above 0.80. For dimension one, the value is 0.861. For dimension two, the value is 0.812.

Dimension	Cronbach's Alpha	Variance Accounted For	
		Total (Eigen value)	Inertia
1	.861	3.823	.546
2	.812	3.289	.470
Total		7.112	1.016

Table 36: Cronbach's Alpha test.

As the results of these two tests are consistent, they are relevant to the answers provided by the respondents – the informal investors.

A joint plot of category points will be constructed in the next section in order to study the distribution of points and, eventually, raise new research questions to be addressed in future research projects.

Analysis of the Results: Fourth Level – Joint Plot of Category Points

The different values obtained from the Questionnaire are shown in the diagram below, plotted, using different colours.

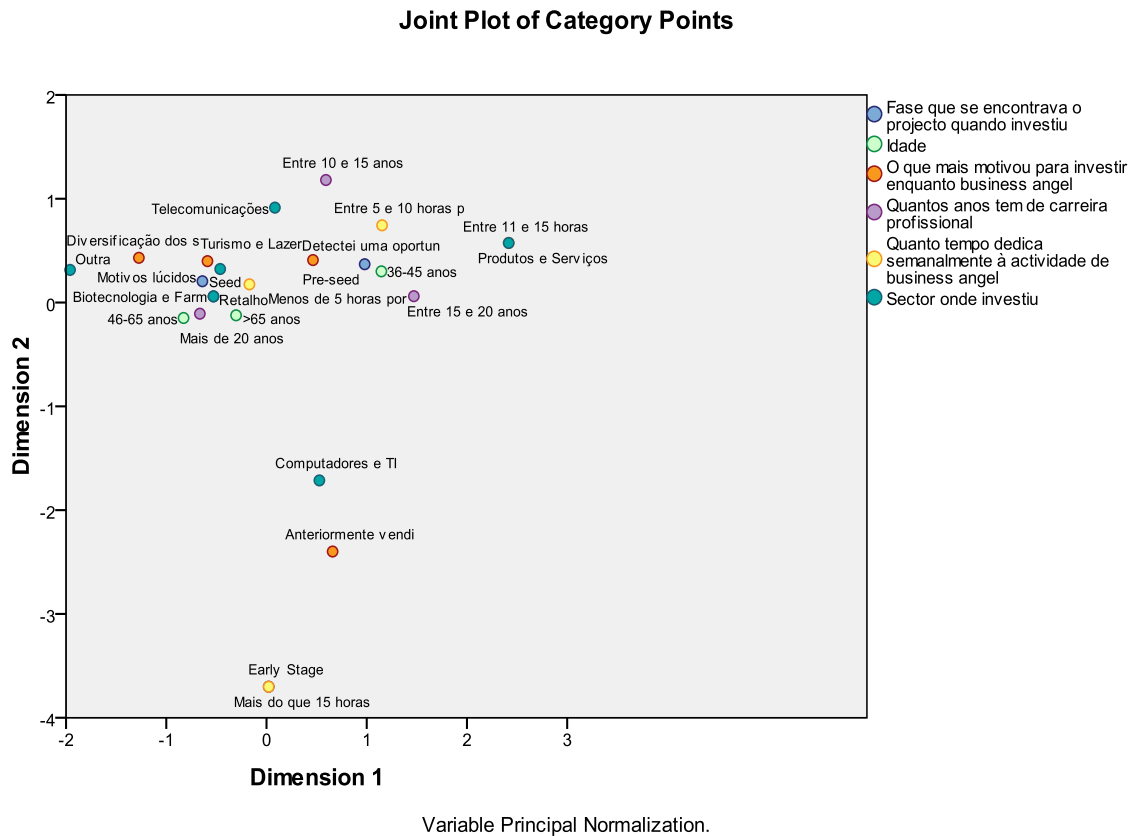


Figure 9: Joint plot of category of points. Please note that the English translations for the information provided in Figure 8 are available in Appendix 2. Key to Table: **Light Blue:** In which sector did you invest? **Yellow:** On average, how many hours do you devote to business angel activities per week? **Purple:** How many years of business experience do you have? **Marine Blue:** At which phase were the business ventures when you invested? **Orange:** Motivational factors behind investment? **Light Green:** How old are you?

The evidence provided by Figure 9 is interesting because apparently two different clusters have emerged. On the left side of the diagram, the image suggests the existence of a cluster, centred around ages forty six to sixty-five and above sixty-five years of age. To the right, there is a cluster – less compact – structured around the point representing ages thirty-six to forty-five years old.

The evidence suggests the existence of two clusters, one more compact than the other. From this data, one cannot generalise these findings to the entire expanding Portuguese business angel community.

Cluster One: “Older”	Cluster two: “ Younger”
Ages: 46–65 years and >65	Ages: 36–45 years of age
Business experience: more than 20 years	Business experience: between 15–20 years
Sectors of investment: Tourism and Leisure	Phase: Pre-seed
Sectors of investment: Biotechnology and Pharmacy	Sectors of investment: Products and Services

Table 37: Evidence extracted from the joint plot category points.

The existence, if confirmed, of these clusters in Portugal is an interesting finding. It never emerged from my observations and meetings with business angels and representatives of the different clubs.

The following step in this research might be to explore this finding using a more extensive database – eventually involving a questionnaire – among most, if not all, business angel clubs operating in Portugal.

Conclusion

According to analysis of responses to the Questionnaire, Portuguese business angels are predominantly male and middle-aged, with extensive professional experience. In terms of professional background, the economic sectors that provide business angels most business experience are in ascending order of importance: consultancy, financial services, building industry, and IT and computers. Most of the business angels were company owners or, alternatively, held positions high up in management, when they decided to invest as business angels.

Portuguese business angels tend to invest – and the investment experiences are diversified – not far from their home, and the basic motivation behind this, is economic: detection of a good business opportunity, which is a euphemism for profit. They are, in general, keen on participating in co-investment experiences, either with other business angels or, less likely, with formal venture capital companies.

Two-thirds of the amounts invested are, so far, below €100,000 per project, the most popular being in tourism, leisure, computers and IT and telecoms. The investments often take place at the pre-seed and seed phases. For those who have already exited, success is not a common experience.

While tax incentives are thought to have a positive impact on the development of the business angel industry in Portugal, the fact is that informal investors tend to participate in the management teams – holding various management positions – of the projects in which they have invested.

For those members of business angel clubs with no previous investment experience – “potential” business angels – the first investment is expected to take place in the next three years. However, the majority of the few respondents expect to invest within a year. The expected investment is below €100.000 for 80 percent of respondents, who would consider investing but not far from home.

Co-investments are a likely alternative for informal investors with no previous investment experience, for whom also tax incentives might have a positive impact on the development of the informal investment industry in Portugal; they, therefore, share the opinion of those business angels with investment experience.

The most likely business sector to invest is in industrial products and services, and the least likely is computers and IT. “Would-be” business angels want to participate in the management teams – occupying various management positions – of the projects in which they will be financially involved.

Informal investors tend to participate in events promoted by their own clubs and believe clubs should send periodic information to their members, but not very often, preferably using electronic means. Every six-months, is the preferred alternative.

In order to assess the consistency of the Questionnaire, Cronbach’s Alpha was used to test it. Fortunately, the results obtained were satisfactory, meaning that there is evidence of consistency in the answers given by the business angels.

Finally, a joint plot of category points was constructed. The results, apparently, permit identification of two clusters: one linked to older business angels and the other, more dispersed, connected to younger business angels.

What are the implementations of this analysis?

The results have been extracted from the responses given by business angels from two clubs in Portugal. However, one cannot extrapolate the results to the entire population of business angels in Portugal, where ten business angel clubs currently operate.

The consequence is, that to have a clear picture of the entire industry, it is necessary to replicate the Questionnaire both periodically and geographically in order, as mentioned above, to gain further insight into the dynamics existing within this industry.

The idea is to consider the creation of a new business unit in the bank¹⁶ dedicated to this particular segment; start-ups with the support from business angels, in equity as well as in advice.

¹⁶ The researcher works for Millennium Bank in Portugal in new business.

What is new according to the current literature?

This is new insight concerning the existing reality in Portugal, as so far, there has been no research into Portuguese business angels. There has been limited investment experience in one of the clubs. Investments tend to concentrate on the pre-seed and seed phases.

On the other hand, there is some evidence – on the joint-point category diagram – suggesting that younger business angels tend to invest in high-tech sectors, while older business angels prefer to invest in other sectors. The existence of different investment profiles according to age is also new.

The analysis on potential business angels is also a new approach. The study of the relations between clubs and their own members was also new.

What are the hidden issues behind the results?

From this research, the results indicate that there is still ignorance regarding both the sourcing process as well as the screening mechanisms. Do all the clubs have the same procedures and methods during the screening process? The answer is apparently negative as there is no central body responsible for the screening process. Apparently, it is a decentralised process, although some clubs prefer that the screening should be performed on an outsourcing basis, as happens in the Cascais club.

On the other hand, both the number of clubs and the members of each club have been steadily increasing throughout the country. However, the number of business angels that have left the clubs is still unclear. The same happens with members who are formally considered members but effectively keep themselves separate from club activities.

There is little knowledge about the internal dynamisms existing within the different clubs, as well as within the Federation.

The sourcing is apparently decentralised, with local activities in the business community and local universities holding national-wide activities that involve different clubs. On an annual basis, the national road show involves a number of important business angel clubs from several major Portuguese cities.

Limitations of the current research

There is a limitation concerned with the limited number of responses received. On the other hand, there is also a limitation regarding the number of clubs involved in this first part of the research. How can one overcome these two major limitations? The reduced number of responses is difficult to overcome, as it is a recurrent concern in the research produced about business angels. The other constraint, concerning the number of clubs involved can be overcome by involving more of them in the current research.

A distinct but relevant limitation rests on the usage of solely quantitative research techniques.

Another limitation is associated with the difficulty in gaining different club leaders' support and persuading them participate in the research. This has been a time-consuming task.

A final limitation results from the fact that informal investors related to clubs have been considered but informal investors not linked to clubs have not. However, these individuals are difficult to identify and therefore are not considered in this research.

Why might the findings of the current research be important?

The evidence suggests that there are around twenty to thirty active business angel members per club, and there are ten clubs currently operating in Portugal. If active business angels invested €100,000 per project, this would mean that there is a potential market of around €30 million of equity available for new entrepreneurial finance.¹⁷ This is important for the banks because these new ventures will need, in addition to equity, a combination of short- and long-term debt. This, therefore, represents a new business opportunity for banks.

Another relevant issue is the amount invested, which apparently, are small on a per-project basis. On the other hand, the sectors in which the investments have taken place are diversified, which reveals a diversification of risk. There is no concentration of risk, per business angel, as most of them are investing for the first time.

Another interesting finding is that business angels, both experienced and potential are willing to share the risk, involving themselves in co-investments with other business angels and eventually

¹⁷ Potential of the market is €100,000 of investment (equity), per project; 10 clubs equal 30 investments per club.

with formal venture capital companies. This mitigates risk because more competences and skills are brought to the different ventures.

Portuguese business angels are apparently experienced ones. They tend to invest not far from their homes and want to hold a position in the management team of the project in which they have already invested. Informal investors wish to devote at least one hour a day on business angel activities. Why is this good news? In one way because they, the investors, express their desire to monitor closely the development of the business venture in which they have invested their own financial assets.

Another interesting point emerging from the second level of analysis is that both experienced and inexperienced business angels do have a common stock of beliefs and assumptions: this includes the amount to invest and the phase of the business venture in which they want to invest or have invested. Why is this positive? Since they share ideas and assumptions without a clear distinction, there is no need to segment these two sub-sets.

All these are positive aspects; however there are some issues that might have a negative impact. The negative outlook of the Portuguese economy in the next few years is one of them. The other negative aspect is that, so far, companies at the pre-seed and seed phases are seen as risky business from the perspective of banks.

This new business opportunity has both positive and negative aspects, and the opinion of the researcher, the balance tends to be positive. However, further research is required in order to gain a deeper understanding of this industry.

Reflective Practitioner

Introduction

This work started with a definition of the aims, which were decided from the literature review. The research objectives were set out and then the Questionnaire was developed.

The construction of the Questionnaire was an iterative process. Several iterations were completed before getting to the final draft. At this point, a new phase started with the preparation of the Questionnaire pack, which included the Questionnaire, a covering letter and information sheet. At the same time, several meetings took place in Lisbon with leaders of different business angel clubs, where the aims and objectives of the research were explained and their active involvement in the research process was requested. The Questionnaire packs were sent out directly to the individual business angels via the business angel clubs who also sent a few reminder emails. The feedback was very encouraging. High hopes existed regarding the response rate. However, the reality proved to be very different. Analyzing the responses using the SPSS completed the final stage.

Professional

The researcher built up a new network of contacts in Portugal, which will be very useful in the future; these include several clubs, individual business angels and several Portuguese academics too.

The business angel industry is still an emerging one in Portugal. Although the clubs are mainly concentrated in the metropolitan areas of Lisbon and Oporto, the two biggest Portuguese cities, the phenomena is also emerging in other locations throughout Portugal, as the number of clubs has been increasing throughout the country.

Statistics, Positivism and Constructionism

The seminars that took place at Nottingham Trent University induced further study on statistics and statistical methods. This task has two major components: to refresh previous information and, simultaneously, to gain new insights and concepts. Later in the process, these concepts and tools were applied using SPSS, in order to explore the data provided by the responses given in the Questionnaire.

The elaboration of this Document provided the opportunity to work under a different ontology and, therefore, with a distinct epistemology. For Document 3, the ontology – subjectivism – referred to the notion that through language one constructs reality, and that this is a social construction.

For the elaboration of this Document, the ontology was completely different. That reality existed outside the subject. As Saunders et al. note, “you will probably adopt the philosophical stance of a natural scientist” (2007: 103). According to interpretivism, humans “are social actors” and thus “we interpret the social roles of others in accordance with our own set of meanings” (2007: 107).

Meanwhile, another problem has emerged during the course of the research. Having used different ontologies for Documents 3 and 4, how will Document 5 be prepared? While working out this problem, an epiphany occurred and a decision was taken to interview the two different business leaders of the clubs involved in this research, in order to interpret the responses given in the Questionnaires.

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NOTTINGHAM BUSINESS SCHOOL

Doctor of Business Administration

DOCUMENT 5

A THESIS

**Construction of “Self” and “Out-there”: The Narratives
and Organisational Development of Business Angels in
Portugal and the United Kingdom**

Supervisors:

Dr. Hafez Abdo

Dr. Jing Wang

Student:

Ricardo Nuno Teixeira de Gouveia

N0165583

January 2013

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Abstract

This is the first research conducted into Portuguese business angels – a term referring to informal investors – who are private wealthy individuals willing to invest a part of their own wealth in new business ventures for a profit. The business angel market is partially opaque in that many informal investors are not part of any organisation, club, or network and, therefore, they are difficult to identify (Mason and Harrison 2010; Mason and Harrison 2011). Many, however, are formally organised in clubs, associations, or networks (Amis and Stevenson 2001; Van Osnabrugge and Robinson 2000).

Starting from the visible part of the market—the one linked by networks—and subsequent to the literature review, two relevant topics were identified: business angel profiles and their investment profiles. These two topics were crucial to the design of the questionnaires. Analysis of the questionnaire responses – which included the recipients of two of the most representative informal investor clubs in Portugal – helped to identify the profile of Portuguese business angels and their investments. Although the results of this research (detailed in Document 5: 3.2) could not be extrapolated to the entire Portuguese business angel community, the current research will offer future researchers another source in addition to the limited knowledge base available in this area.

These findings, together with the conclusions of the literature review, were fundamental to the preparation of the semi-structured interviews, which took place in Portugal and in the United Kingdom. The research questions were designed to assess if and how the identity-construction of the business angels both in Portugal and in the UK were linked to the way in which informal investors have mapped their own “out-there”. New research areas were identified in both geographic areas during the course of the research. This is detailed in Chapter 10 of Document 5.

Two major research gaps were identified in the process: first, using objectivist ontology, there was no evidence that any research had previously been performed to analyse the profile and investment characteristics of the Portuguese business angels, although there was evidence that this had been done in the UK. Second, the semi-structured interviews (framed by the questionnaires), were designed to analyse the ways in which business angels (in both geographic areas) frame their own identities; how they construct their own “out-there”; and the binding mechanisms used to link these two realities. This was another research gap that was identified in the DBA research.

There are similarities among business angels in the UK and Portugal in the way that they define themselves towards the reality they have constructed, but that said, there is a significant difference in the way that business angels in the UK offer a broader perspective of their roles. Of particular significance among business angels in the UK is the way in which their “out-there” is constructed; their informal investment activities, in some cases, are not central to the narratives of the interviews. Business angels constructed themselves in a variety of ways, it was found, but in Portugal, the multi-voice of the discourse was less evident. Finally, the research suggests that the higher the

ranking of the interviewee within the network, the more concrete the interviewees' perception of his own organising activities.

1. Background

Having worked in Portugal for the last twenty-five years in a business banking environment—a segment of retail banking devoted to supporting commercial activities as well as financing small and medium-sized companies’ investments—I managed to take part in financing a number of new business ventures. This was due partly to the commercial capability of the bank and partly to the traditionally low profile of the Portuguese venture capital market.¹

My first years in banking were a revelation. I started to reflect on how my career might develop in the future. Initially progress did not appear to proceed at the anticipated rate. I thought about further improving my portfolio of managerial skills and competencies by attending a specialised programme abroad.

If identity is that “which putatively makes an entity definable and recognizable” (Gabriel 2008: p. 136) then mine was rooted in the analysis of business projects and in assessing risk from the perspective of the risk taker—which happened to be the financial organisation where I had been working. Therefore, the dominant narrative appeared to me to be rooted in “technical rationality” (Schön 2006: p. 21) and this I believed to be the only narrative possible.² Apart from this quantitative issue, it was also based on assessing the abilities of entrepreneurs to undertake new business projects, or rather, to continue with their existing business ventures. My identity was also modelled by the dominant narrative within the organisation. I became very aware of this when

¹ Banha has argued that Portuguese venture capital has been “stranded” at its inception, because the venture capital firms hold an equity position within companies that have a very weak profile in terms of profitability and growth potential (2000: p. 63).

² Here Schön argues that according to the model of “technical rationality”, “professional activity consists in instrumental problem solving made rigorous by the application of scientific theory and technique” (2006: p. 21).

there were significant changes in the dominant corporate discourse. This followed a complete change in the board after a modification in the bank's shareholder structure.³

After completing a generalist MBA, I was promoted to a managerial position in the bank. But the question once again emerged: what to do next? The answer was not easy and it involved considering many different possibilities. I was very much marked by the Portuguese environment I had worked in. The acknowledgement of that fact, which I perceived as being a negative attribute, led me firstly to consider studying for an MBA in the United Kingdom and then to consider applying for a doctorate programme abroad.

1.1. Introduction

In Document 1 the research topic is framed as the confluence of several distinct research areas: entrepreneurship, innovation, and finance (see Gouveia 2007a).

It transpires in Document 2 that the most important research sites were the United States of America, the United Kingdom and Scandinavia (see Gouveia 2007b). Why these countries or geographical areas? There has been research on this topic in the United States since the 1980s (Wetzel 1987).⁴ In the United Kingdom, the first research paper seems to have been published early in the 1990s (Harrison and Mason 1992),⁵ followed by research in Scandinavia. New research has been published in other geographical regions, such as Japan, Singapore and Australia to name only a few and the number is steadily increasing, a reflection of the growing interest in this area.⁶ The first research

³ The changes within millennium bcp were reported widely by the international media see <http://afp.google.com/article/ALeqM5jh5vKvLDYsbQBI-zKrPB6PHrVGDA> [accessed 6 June 2012].

⁴ There is a reference to an article published in 1983 in Wetzel 1987: Wetzel Jr, W. (1983), "Angels and Informal Risk Capital," *Sloan Management Review* 24, 4: p. 23–34).

⁵ Harrison and Mason published a paper about business angels and their networks in the United Kingdom in 1991: R. T. Harrison and C. M. Mason (1991), "Informal Investment Networks: A case study from the United Kingdom," *Entrepreneurship and Regional Development* 3: pp. 269–80. See Harrison and Mason (1992).

⁶ Among the studies about business angel investments and profiles in these countries were: Y. Tashiro (1999), "Business angels in Japan," *Venture Capital*, 1/3, pp. 259–73; K. Hindle and L. Lee (2002), "An exploratory investigation of informal venture capitalists in Singapore," *Venture Capital*, 4/2, pp. 169–86;

on this emerging market in Portugal was produced during this research. The business angel market in Portugal was founded in 1999. Shortly after, it entered a sluggish period following the “dot-com” crisis, and did not recover until 2006.

Document 3 is interpretative research (see Gouveia 2010). This was of interest because it introduced unfamiliar theories and concepts. Working with this new ontology and respective epistemology enhanced and increased the breadth of the research area.

Document 4 is a piece of quantitative research (see Gouveia 2009). A number of questionnaires were sent to the members of two business angel clubs. The results were analysed at several different levels and the results were documented in what was the first insight into the profile of the Portuguese business angel.⁷

Document 5 will analyse the way business angels build up their identities and, at the same time, how they map their “out-there”. The data to answer these research questions was gathered from nine semi-structured interviews which took place both in Portugal and in the United Kingdom. The topics that were presented in these interviews were derived from the literature review.

The literature research of Document 2 (Gouveia 2007b), which presumed an objectivist approach, revealed the existence of a research gap. It was possible to identify the profiles of British business angels from the existing research. The same exercise could be done regarding the American informal investors and the ones from Scandinavia. However, it was not possible to extrapolate this research to Portuguese business angels.

This identified research gap was addressed in Document 4 (Gouveia 2009). This was a piece of quantitative research that allowed for investigation into the lack of knowledge about the profiles of the Portuguese business angels and the characteristics of their investments. Moreover, the process of building relationships with named contacts from

and R. Wenban (1999), “Australia’s informal venture capitalists: an exploratory profile,” *Venture Capital*, 1/2: pp. 169–86.

⁷ A paper was prepared and submitted to the *Journal of Entrepreneurship*. We have yet to receive feedback.

the different clubs was an important development in setting the foundations for future research. Their co-operation in this first research may set an example and might induce others to collaborate, even those who declined to be involved in the original investigation.

When the initial literature review (Gouveia 2007b) was completed it was found that there was already some research based on the subjectivist approach (Downing 2005; Anderson and Smith 2007). It was feasible, therefore, to perform the same subjectivist ontology-based research on business angels in Portugal and in the United Kingdom. Document 5 uses the concepts that emerged from the objectivist ontology-based research (Detailed in the Appendix, p. 141) to construct the semi-structured interviews that took place in the United Kingdom and in Portugal. This was in order to address the research questions that are detailed later in this document.

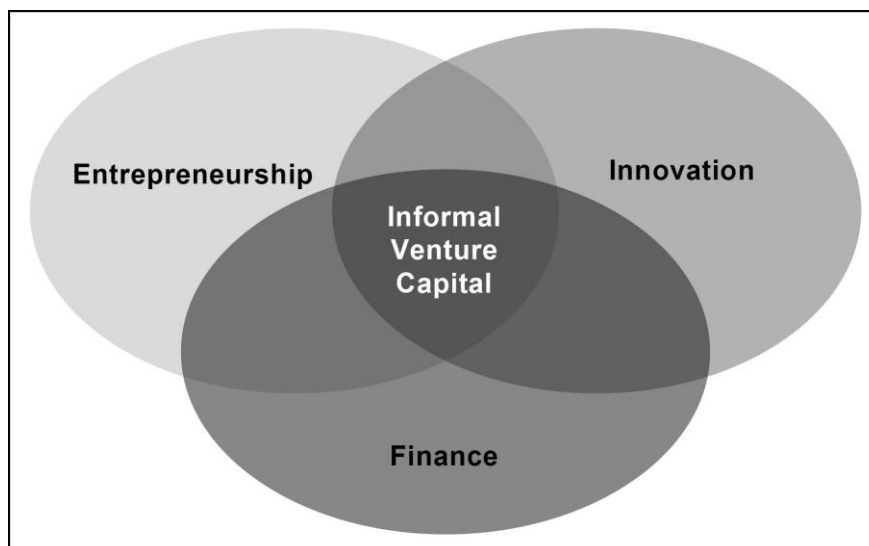
Document 5, while resting on a constructivist approach, will attempt to reconstruct the internal landscape that identifies the most important traits of “business angel identity”. At the same time it will illustrate, using linguistic artefacts, the way that business angels or informal investors (these terms are used interchangeably) construct their outside reality. This document will also investigate whether a relationship exists between the ways business angels construct themselves and how they construct their outside reality. It is thought that these findings could be important to other stakeholders such a policy makers, formal venture capital company managers, and entrepreneurs, to mention but a few potential beneficiaries, in order to better understand the business angel community.

A final limitation results from the fact that only informal investors related to clubs are considered as part of the current research. There are informal investors not linked to clubs but these individuals are difficult to identify and, therefore, are not considered in this research.

2. Research Topic

The research topic emerged from the professional experience of the researcher as it deals with the confluence of three distinct research areas: entrepreneurship, innovation and finance.

Smith makes a distinction between invention and innovation arguing that, “Innovations represent a subset of a much bigger set of inventions”. Soon after this he states that innovation is “... about bringing inventions out of the workshop or the laboratory and getting them ready for the market” (Smith 2006: p. 6). Linked to innovation is entrepreneurship, an activity which “involves the creation of new businesses and the development of new and established firms” (Westhead et al. 2011: p. 4). Rae, on the other hand, sees awareness as central to entrepreneurship activities, and in fact stresses that, “Being aware of opportunities is central to developing and learning entrepreneurial behaviours” (Rae 2007: p. 4). The interconnection between these three independent fields of study: innovation, entrepreneurship and finance can be observed in Figure 1 (below).



***Figure 1: Informal venture capital at the confluence of different research areas.
Source: author's own.***

Funding innovations is serious business. Smith suggests that “most of the innovators initially at least will make use of personal savings, usually supplemented by financial inputs from family and friends” (2006: p. 209). Besides family, friends and fools, banks are technically a source for funds too.⁸ As Smith points out though, they [banks] tend to be reluctant to “provide finance for innovation-related, high technology business start-ups” (2006: p. 215). Apart from these entities, venture capitalists and business angels “often provide the seed capital for start-ups” (Read 2011: p. 135). Smith elaborates further on their objectives, describing business angels as “High net-worth individuals seeking capital gains over the life of their investment in a company” (2006: p. 215). However, as Westhead accurately points out, “business angels may be more appropriate for smaller investments and investments that, while viable, have lower internal rates of return than those that would be of interest to formal VC firms” (Westhead et al. 2011: p. 203).

Business angels and bankers both share risk, but the most striking difference between them is that bankers have been offering financial resources—debt—to entrepreneurs, whereas business angels or informal investors provide both financial resources and expertise to them (Westhead et al. 2011: p. 203; Smith 2006).

Originally, the investigation was directed towards the formal venture capital market, but the main focus of the research was uncertain. When discussing a research topic Jankowicz argued, “At this stage, you may have a vague notion about a topic, or you may have no idea whatsoever” (2005: p. 23). A new segment of the market is informal venture capital. This is a recent phenomenon in Portugal and has enormous potential for growth. It is already a well established concept in the United Kingdom (Mason and Harrison 2010). The market in Portugal being a small and emerging one, the anticipation was that there was a chance that no research had been done yet, whereas in

⁸ Family, friends and fools are sometimes, incorrectly, aggregated into the term crowd-funding. The category “fools” appears in presentations such as seen in the following link: <http://www.slideshare.net/Nacpe/how-to-get-financing-from-a-business-angel-at-binfeup2010> [accessed 20 July 2012].

the United Kingdom there was abundant research into this market (Mason and Harrison 2009–10).

Chapter 3 will elaborate on the dynamics of the Portuguese business angel market and compare it with the evidence provided by the research that has been done on business angels in the United Kingdom and in other countries. The information provided by this analysis will be incorporated – as espoused in the conceptual framework (Figure 3, p. 33) – in the topics that will be raised during the semi-structured interviews in order to respond to the three research questions detailed in Chapter 7 (page 75).

2.1. Angels, Dragons and Saint George: A postmodern “bricolage”

The powerful label “angel” is sometimes used to define wealthy people who are willing to invest part of their own fortunes in start-up investments for a short period of time. Simultaneously, an angel⁹ in the three monotheistic faiths is a mediating figure between divinity and reality, and as such, is label is used metaphorically to describe a person who is fundamentally good and with powers to bring about exceptional outcomes. As noted by Gabriel, metaphor “has long been viewed as [a] powerful instrument for transferring meaning from one entity to another” (2008: p. 181). As Tietze et al. point out, however, metaphor also “can make us see the world in a particular way by emphasizing certain aspects of signs/subjects domains, but it also hides other features” (Tietze et al. 2007: p. 34). Attributing angelic characteristics to informal investors, therefore, can somehow be seen to imbue these individuals with characteristics that are beyond earthly normality.

According to the Christian tradition, Angels are mediating figures that act between God and ordinary people. Angels protect, mediate and deliver news, among other functions that straddle the earthly and the divine. The scriptures outline a hierarchy of angels with different functions and powers.¹⁰ In the Jewish tradition, too, angelic figures play a

⁹ Searching Google for the term “angel” 1.3 billion entries were found; in the plural there are almost 432 million entries.

¹⁰ <http://angelstoday.net/?lang=en&way=1information/1angels> [accessed in 8 December 2012].

prominent role between God and mortals. Angels are not exclusive to the Jewish or Christian Faiths¹¹ either, because according to the Islamic tradition, the Prophet Mohammad was inspired by the Archangel Gabriel when writing the Qur'an.¹² What emerges from the literature specific to the current research is that the term "angel" is used more frequently in the research produced in the United States than it is in the United Kingdom. In Britain, other discursive terms are used to define this type of investor, "informal investor" or "informal venture capitalists" being among the most common terms (Wetzel: 1983; Freer, J., Sohl, J. and Wetzel: 1990; Prowse 1998; Mason and Harrison 2009; Mason and Harrison 2010).

While "business angel" is a term less often used in the academic literature produced in the United Kingdom and more frequently seen in like-literature of the United States, there are some other interesting terms used in association with informal investors. For example, the term "dragon": in the United Kingdom there is a popular television show entitled the *Dragons' Den* where investors, called "dragons", are seated behind bundles of money ready to invest in would-be entrepreneurs' ventures. The contestants pitch their ideas to the Dragons, and if successful, the investors then provide the designated amount of cash and offer their undoubted expertise in a particular business venture. The title is apt, being that the contestants get a grilling from some of the UK's most successful entrepreneurs. But the point in the current context is that here is yet another metaphorical term in use that defines the informal investor.¹³ In the United Kingdom, the dragon is a mythological figure whose arrival in British legend comes from the Crusades. The creature is associated with Saint George, who happens to be the patron saint of England. The term dragon, therefore, when used to define informal investors denotes a mythological figure that has a reputation as a ruthless predator. It is interesting that the dragon was chosen as the synonym for the informal investor in the United Kingdom, where it is associated with the patron saint of England, Saint George, who, having slain the dragon may be seen to have won a victory of good over evil.

¹¹ <http://www.pantheon.org/articles/a/angels.html> [accessed 17 December 2012].

¹² <http://www.greenstar.org/Islam/> [accessed 3 November 2012].

¹³ In similarly formatted programmes in Israel and the United States, investors were called sharks; in Finland they are known as lions; in Japan, which is incidentally where the concept initially started, the investors are known as tigers (Rees-Mogg: 2008).

The association of informal venture capitalists with powerful metaphorical figures such as angels is a substantive one that suggests a connection with the divine. The perceived proximity with divinity implies that these mortals benefit from a relationship with an “all powerful” being. Angels however, it could be argued, have polymorphological characteristics, which means they must have at least two states: good (angel) and the opposite (demon). According to Hatch and Cunliffe it is not possible to define an angel without also defining the demon,¹⁴ “when you use only one term in a binary, you implicitly draw on its opposite” (Hatch and Cunliffe 2006: p. 53). In the angel discourse, therefore, while demons are implicit in the narrative they are nonetheless marginal to it, although the demon or devil is also linked to the idea of the divine. We may argue, therefore, that the dragon can be understood as a synonym for a demon, which the myth of George and the Dragon makes clear. Both the dragon and the image of the devil or demon hold negative connotations in the popular imagination while the concept of the angel or Saint George, on the other hand, holds positive associations in the mental road map of the British people.

In conclusion, therefore, informal investors are associated with two distinct metaphors. In the United Kingdom, the dragon is associated with a ruthless predator; elsewhere worldwide investors come under a number of other predatory epithets. In the United States, and to a lesser extent in the UK and elsewhere, the angel is a term used to denote an informal investor who is popularly associated with an entity that has a direct connection with the divine.

¹⁴ Using the search engine Google the term “demon” came up with 43 million possible references. However, this is well below the number of entries both for angel or angels. See note 9.

3. Business Angels in Portugal

Entrepreneurship level is presumed as a precondition to business angel investment. The first part of this chapter is committed to describing the Portuguese entrepreneurship-level of activity, followed by an account of the development of the informal venture capital industry in Portugal. Chapter 5 takes a similar approach, but the focus is on the United Kingdom. The final section of Chapter 5 puts the investigations about business angel activity in the United Kingdom in context by comparing the findings with similar research done in other locations.

3.1. Entrepreneurship activity in Portugal: the latest findings

Business angels or informal investors exist to support and exploit the existing entrepreneurship potential (Wetzel 1987). The analysis of the potential of the entrepreneurship capacity has been researched in Portugal in two distinct periods. The first report was published in 2004 (Global Entrepreneurship Monitor 2004) followed by a second one in 2007 (GEM 2007). The development of the business angel investments in Portugal will be investigated and the results will be compared and contrasted with those resulting from the research on business angels in the United Kingdom. To address this theme in Portugal is to craft an account of the creation of different networks and of a federation which has the “holding” of almost all the clubs existing in Portugal. However, the *Taxa de Actividade Empreendedora* (TEA: the Entrepreneurial Activity Index) report noted that levels of entrepreneurial activity in 2010 have reduced almost to the levels of 2004 (GEM 2010: p. XI).¹⁵ This account it should be pointed out applies ideas of objectivism, which as Berger and Luckmann describe: “Human expressivity is capable of objectivation, that is, it manifests itself in products of human activity that are available both to their producers and other men as elements of a common world” (1967:

¹⁵ This information is from the *Global Entrepreneurship Monitor*, Projecto GEM Portugal (2010). See: <http://www.gemconsortium.org/docs/2271/gem-portugal-2010-report> [accessed 6 June 2012].

p. 34).¹⁶ Following this there will be a summary of the most important findings regarding entrepreneurship in Portugal.

3.1.1. The Global Entrepreneurship Monitor (GEM) results

Global Entrepreneurship Monitor (GEM) is a study that is published on a regular basis. The volume about Portugal, published in 2007, provides relevant data. In fact, the early-stage TEA index, which represents the entrepreneurship figure (the higher, the better) of the country has grown significantly from 4 per cent in 2004 to 8.8 per cent in 2007.¹⁷ This means that, according to this study, about nine adults in every 100 were involved in early-stage entrepreneurial activities. This figure is smaller (by 0.3 per cent) than the average of the European Union figure.¹⁸ However, it represents major progress when compared with the starting point in 2004. This figure is not gender-balanced, as two-thirds of this 8.8 per cent are males. This performance is also visible in relative terms. In 2004, Portugal was ranked 13 out of 16 European countries. However, in 2007, Portugal was the highest ranked amongst 18 European countries. This interesting development, described in the report, had an impact on business-angel investment activities and these will be investigated in the next section.¹⁹ This account encompasses both the retrospective and social aspects, noting that the advance of the Portuguese entrepreneurship capacity had been impressive in the years prior to 2007, when the international financial crisis hit Portugal and the rest of the world (Weick 1995).

3.1.2. The genesis of business angel activities in Portugal

The entrepreneurial rate in Portugal has grown extensively since 2004 (GEM 2007), and this fact may have triggered the need for entrepreneurial finance. In Portugal, it

¹⁶ Burr writes: “Berger and Luckman’s anti-essentialist account of social life argues that human beings together create and then sustain all social processes as responsible for this: externalisation, objectivation and internalisation” (2007: p. 13).

¹⁷ This information is from the *Global Entrepreneurship Monitor*, Projecto GEM Portugal (2007: p. X), see: <http://www.spi.pt/Downloads/GEM.pdf> [accessed 6 June 2012].

¹⁸ Ibid.

¹⁹ Ibid.

occurred in 1999 when the first business angels club was formed.²⁰ The need to create a club was justified by one business angel (interviewed during this research project and who had been involved in this event) in the following way:

“In Portugal [at the time] the existing Portuguese formal venture capital companies were not able to address the seed and start-up phases.”

The detection of this market opportunity was the impetus to create the first business angel club in Portugal. What emerged from this account was that Portuguese formal venture capital companies were, at the time, only interested in investing in projects that were positioned later in the business lifecycle. This narrative holds a cause and effect relationship. Czarniawska has argued that, “Actions are explained by intentions, and events are explained by causal relationships” (2008: p. 38). Using the same line of reasoning, the previously quoted business angel added the following:

“[Foreign friends] advised me to create a club in Portugal, as I could therefore catch the attention of entrepreneurs, who could help me to overcome the difficulties in financing new business ventures at an early stage.”

Weick (1995) defines one of the components of the sense-making process as one of intense social activity. The first body of informal investors were several top managers from a relevant Portuguese public entity at the time: Participações do Estado: IPE (Investment and Participations of the State). This was a public holding company that existed, at the time, in Portugal and was dedicated to the management of the nationalised companies following the revolution that took place in Portugal in April 1974.

The first venture pitch took place in 2000, where four projects were presented to an audience of informal investors. Amongst these projects was one that later became an

²⁰ More information is available at: http://www.gesventure.pt/quem_somos/apres_gesventure.pdf [accessed 15 July 2012].

important case in business news. It was the first venture pitch in Portugal, which received extensive media coverage, and became synonymous with the creation of the club. One business magazine selected it for its cover page, illustrated in Figure 2 below.



Figure 2: Cover page of the Portuguese business magazine VALOR. (Source: <http://fbanha.blogs.sapo.pt/2009/08/>).

Shortly after the first venture pitch of 2000, business and finance felt the negative impact of the “dot-com” crises, which hindered development of this market in Portugal.²¹ An informal investor, who was investing in the sector at the time, stated, when interviewed for this research project:

²¹ More information on the “dot com crisis” or “dot com bubble” is available at <http://www.investopedia.com/features/crashes/crashes8.asp#axzz21HFgW3YH> [accessed 20 July 2012].

“In 2000 came the ‘dot-com’ crisis and following the ‘dot-com’ crisis, this first group of business angels lost its enthusiasm.”

The reason for this was detailed in the following remark:

“The ‘dot-com’ crisis had a [negative] influence on the club because the focus of this club was on internet projects.”

Therefore, this crisis forced Portuguese business angels into a lethargic period from 2000 until 2006. After 2006, the number of business angel clubs increased.²² What caused this growth in 2006? The response provided by one interviewee summarises what happened then:

“The business angel movement regained some of the momentum lost in 2006. In my opinion, there was a concrete reason for this. Firstly, a state-owned formal venture capital company elected to follow a strategy that was completely different from the one that it had followed in the previous 20 years and it began to finance seed and start-up projects. From 2004 until 2006, 56 projects were financed.” He added, *“This created some curiosity in the market. I was also participating in conferences and talking to people.”*

A number of clubs were formed in 2006: Invicta Angels (in Oporto),²³ APBA (A Lisbon-based club with national coverage) and Cascais Club.

In 2007, the *Federação Nacional dos Business Angels* (FNABA: National Federation of the Business Angel Clubs) was formed. This organisation brought together almost all of the existing business angels in Portugal. Both the Federation and APBA are full members of the European Trade Association for Business Angels (EBAN).²⁴

²² More information about the club is available on its website <http://www.businessangels.pt/club/club.htm> [accessed 20 July 2012].

²³ www.invictangels.pt [accessed 15 October 2011].

²⁴ www.eban.org [accessed 10 October 2011].

Later on, another wave of clubs emerged in smaller cities and regions throughout the country: Guimarães, Covilhã, Évora and in regions such as the Algarve. The concept gained increasing acceptance throughout Portugal. Eleven clubs are currently operating, and the process is ongoing as new clubs are in formation in the Azores as well as in the Madeira Autonomous Region. The number of clubs has been rising since 2006. Table 1 identifies the existing clubs in 2012. These represent the visible part of the market (Mason and Harrison 2010).

Has the consistent increase in the number of clubs or networks had a corresponding increase in the number of registered members?

Non-FNABA Association	FNABA ⁽⁺⁺⁺⁾ Members
APBA Associação Portuguesa de Business Angel's ⁽⁺⁺⁺⁺⁾	Santarem Business Angel Club
	Business Angels Club
	Cascais Business Angels
	Invicta Business Angels
	Vima Business Angels
	Associação dos Investidores de Capital de Risco da Covilhã
	Clube de Business Angels do Alentejo
	Associação de Business Angels do Algarve
	Centro Business Angels
	Open Business Angels

Table 1: The current structure of the business angel clubs in Portugal ⁽⁺⁺⁺⁾ www.fnaba.org and ⁽⁺⁺⁺⁺⁾ www.apba.pt [both accessed 7 September 2011].

The question of the evolution of the number of registered informal investors in Portugal is of crucial importance. Section 3.1.3 elaborates on the dynamics associated with becoming a member of an informal investment club in Portugal.

3.1.3. The number of Portuguese informal investors

The development of the business angel industry started in 1999 with the formation of the first business angel club. One of the interviewees involved in founding the investor's club mentioned that the network was formed with only a small number of members.

This seems to be a common feature in describing the early development of these groups. The next wave of club formation occurred after 2006. One of the business angels involved in the formation of a club in 2006 stated, when interviewed, the following:

“At the first stage there were 20 partners.”

Another business angel, a member of another club distinct from those previously mentioned, stated when interviewed:

“We started with a dozen members.”

The interviewees revealed that the growth in membership was surprisingly high. One informal investor mentioned that the growth had been “*explosive*” in the club of which he is head. Another, less exuberant, stated proudly that the club had “*doubled*” its membership. This information is compatible with that gathered from the websites of the different clubs or networks (these terms will be used interchangeably). The available information from the different clubs' websites regarding the numbers of registered members, as at April 2012, is shown in Table 2 on p. 17.

Network's Name	Geographical Location	Current number of registered members
APBA	Lisbon	136 members
Lisbon Club	Lisbon	160 members
Invicta Angels	Oporto	More than 50 members
Cascais Club	Cascais (nearby Lisbon)	na

*Table 2: The current geographic and membership positions of Portugal's most important business angel clubs as at July 2012.*²⁵ Source: the author's own.

One would assume, therefore, that the numbers of registered members in the different networks or clubs has been growing, but the situation is less predictable than that. Although the number of business angels has grown extensively in major cities such as in Lisbon and Oporto, there is hardly any evidence suggesting that a similar pattern applies to other cities in Portugal. On the contrary, the situation lead one director of a club to report, *“the other clubs, throughout the country are much less dynamic than these ones.”*

In section 3.1.5, attention will focus on the process by which business angels search for business opportunities, and to the screening process, in which the different clubs assess the business plans submitted, or presented, prior to being admitted to the venture pitch session.

3.1.4. Portuguese business angels: A perceived gender asymmetry

The literature concerning the gender of business angels has shown that this is predominantly a male business (Brush et al. 2002; Sohl and Hill 2007; Harrison and Mason 2007). Portugal is no exception. One of the male business angels interviewed said:

²⁵ Sources for Table 2: www.apba.pt/associados and www.gesventure.pt/newsletter/pdf/press_BAC_160membros.pdf and www.invictaangels.pt/index.php?id=11 [all of which were accessed July 2012].

“Well I think we have two ladies associated [with the club]. One is a lawyer and the other is a business manager.” He added, *“Recently a top manager working in a Portuguese group demonstrated her interest in joining the club.”*

Another male business angel interviewee mentioned: *“We have just one [female member]”*. This interviewee mentioned that the club he currently heads had 40 associated members, at the time the interview was conducted.

Although the number of female business angels has grown in recent years, the absolute number is still very low. The websites of three different clubs were consulted: The FNABA (Federação Nacional de Associação de Business Angels: the National Federation of Business Angel Clubs) and APBA (Associação Portuguesa de Business Angels: Portuguese Business Angel Association) and Invicta, Oporto. In APBA, only seven out of their current membership are female. Only one of them is at managerial level within the organisation. The Lisbon Club has a membership of 160 women among which, once again, there are only six females, none of whom are at board level.

Another male business angel leader elaborated on the disparity seen in the gender division among business angels, saying: *“The numbers of women business angels is linked to the development of the Portuguese society. The business angel is a person with a certain financial capacity and with experience to be used in entrepreneurship, which means people in their forties.”*

In conclusion, despite recent growth in the number of female business angels, it seems that their numbers are still very low. In addition, among the few female business angels there are, it seems that they still have limited access to managerial positions within the clubs or networks. There is only one female business angel occupying a managerial position in Portugal in the three most important networks. Furthermore, unlike the United States of America, in Portugal, there are no female-only business angel groups (Sohl and Hill 2007).

3.1.5. The sourcing and screening processes

The majority of the clubs that were contacted by the researcher mentioned that entrepreneurs present their business plans to be assessed by different clubs before being presented to the business angels. The purpose of this preliminary phase seems to be to overcome any detected inconsistency or weakness of the business plans prior to being presented in the venture pitch to an audience of informal investors. One business angel mentioned the following:

“[There is] a software framework to work out some parameters in the projects. People [entrepreneurs] are compelled to answer a number of questions, which are similar for all projects. Immediately afterwards, every club member receives the information that a business case with a number of characteristics was received by the club.”

Another business angel views the process from a different perspective: *“My club receives the business case [by internet]. If all the fields of the application form are not filled in, we contact the entrepreneurs for additional information. Eventually, we schedule a meeting [with the entrepreneur] to discuss the entrepreneur’s ideas and the viability of the project.”*

Although most of the clubs contacted tend to use this technical procedure, not all of them follow the same pattern. In fact, one club follows a different procedure (internal analysis of the business case). In this case, the entrepreneurs present their own business plan to an outsourcer. After being scrutinised, and after a clear indication from the entrepreneur that they wish a business angel to be involved, the business case is then sent to the club to be presented in a venture pitch.

3.1.6. The COMPETE Programme

The global financial crisis, that also hit Portugal late in 2007, affected the business angel industry, which up until then had been expanding rapidly. In fact, a number of

clubs emerged in 2006, and in the following year, the Federation was formed. In 2009, in order to mitigate the negative consequences of the economic crisis, the Portuguese government addressed the entrepreneurship dimension with a bold project: the Competitiveness Factors Operational Programme (COMPETE programme).²⁶ Initially it had a budget of €10 million, but in the end, the Portuguese government provided €28 million in funds.

As applications closed at the end of 2009, the number of business angels that were funded was not 20, as was estimated, but 54, giving an additional investment capacity of more than €39 million.²⁷ Business angels would invest their financial resources as equity in the Special Purpose Vehicle (SPV), and the financial resources of COMPETE would be also put into the SPV. The financial resources from COMPETE would be similar in status to that of long-term loans, with no interest, and capital would be guaranteed for COMPETE.

The maximum fund available to each SPV was €500,000; the maximum provided by the government was 65 per cent and the remaining 35 per cent would be borne by the business angels themselves. Needless to say, re-investments would not be allowed and the COMPETE long-term loan could not exceed 10 years. Investment would have to be completed by 31 December 2012. This programme—similar to one developed by the Dutch government—has national coverage with two exceptions: Lisbon and the Algarve region, as they are among the most developed in Portugal. This programme created great enthusiasm in Portugal. The FNABA argued that it was responsible for more than 80 per cent of the approved SPV, while the APBA argued that the candidacies that emerged from the APBA were also considered in the pre-approval phase: fifteen at least.²⁸

²⁶ See the COMPETE programme official website at <http://www.pofc.qren.pt/> [accessed 19 June 2012].

²⁷ www.fnaba.org [accessed 7 September 2011].

²⁸ The press release was published on 3 November 2010 at www.apaba.pt [accessed 20 November 2011].

3.1.7. Where does the Portuguese business angel industry stand now?

From the start, business angels in Portugal have had variable success. The “dot-com” crisis put the industry into a lethargic period, which lasted until 2006. The rebound was remarkable and the growth from 2006 to 2008 was evident. The financial crisis at the beginning of 2008 placed enormous constraints on this industry. However, the government, in what was perceived as a counter-cycle effort to promote entrepreneurship, started COMPETE, a programme designed to boost the financing of new business ventures together with Portuguese business angels.

The angel programme has gained much interest from the Portuguese business angel community. However, it is still too early to evaluate the full impact on the Portuguese economy. There was a General Election in Portugal in June 2011. The new Junior Minister for Entrepreneurship, Competitiveness and Innovation, Carlos Nuno Oliveira, was recently quoted as having said to a Portuguese newspaper:

“We must continue with seed capital through the FINICIA programme,²⁹ managed by IAPMEI (The Institute for the Support of Small and Medium sized Businesses) together with private entities. We are studying international models that have worked.”³⁰

When asked about the public support of venture capital markets, the Junior Minister gave the following answer:

“This is an issue that has been assessed. For new business ventures, venture capital should not be only money. There should be contacts and access to global markets. We must know how to attract more international venture capital.”³¹

²⁹ Programa FINICIA: Financiamento no arranque de empresas (financing start-up companies), see <http://www.iapmei.pt/iapmei-mstplindex.php?msid=12> [accessed 19 June 2012].

³⁰ *Expresso*, the Portuguese weekly newspaper; in the Economy Supplement on 6 August 2011: p. 9.

³¹ *Ibid.*

In June 2011 following months of political unrest, there was an agreement for the creation of a rescue programme involving Portugal, the European Union (EU), the International Monetary Fund (IMF) and the European Central Bank (ECB). In the months immediately following the signing of the agreement there was a period of uncertainty. After the agreement, the prospects for the Portuguese economy became very negative. One senior Portuguese business angel, a recently re-elected leader of a club, was quoted by a Portuguese newspaper as having said:

*“2010 was a very difficult year with a lot of instability in all areas. The investors retracted a lot.”*³²

Another business angel, the leader of a different club, was reported as having said to the Portuguese newspaper *Diário Económico* on 23 May 2011:

“The Portuguese venture capital market is now facing a lot of turbulence and is not indifferent to the economic and confidence crisis which is now installed in the Portuguese economy.”

The existing uncertainty has affected the Portuguese business angel community. However, there is a renewed commitment by the Portuguese authorities to foster entrepreneurship, which has had a positive impact on export as an alternative to imports. Venture capital, both formal and informal, will also have an important role to play.

In November 2011, the *Expresso* newspaper reported that the Portuguese state-owned venture capital companies' atomised structure was going to be changed in order to make it more efficient.³³ Meanwhile, the business angel community had been making suggestions to increase informal venture capital in Portugal by means of increasing tax incentives to investment, and also by developing an internationalisation strategy, which will be detailed in the following section.

³² *Jornal de Negócios*, 16 May 2011.

³³ *Expresso* is a Portuguese weekly newspaper: 14 November 2011, p. 6.

3.1.8. The development of the business angel industry in Portugal: The quest for internationalisation

The number of business angels in Portugal has been growing steadily in recent years (see Table 2, p. 17). Paulo Andrez, head of the Cascais Club and vice-president of the FNABA, mentioned in an interview of 2011:

*“Portugal from the point of view of infrastructures and programmes is considered, nowadays, a world reference as we have what is called a triple BA: certification, tax incentive scheme and a co-investment fund.”*³⁴

This assertion was reinforced by Francisco Banha, CEO of the FNABA and the leader of the Lisbon Club, who wrote, *“Portugal is a small European case study in the business angel domain.”*³⁵ A number of Portuguese business angels representing different clubs were appointed to the board of EBAN in recognition of their intensive efforts to promote informal investment in Portugal. Francisco Banha is a member of the board and Paulo Andrez was vice-president of the association until April 2012 when he was appointed as the new president of EBAN.

While the full impact of the COMPETE Programme is not yet visible, Portuguese authorities have stressed the importance of promoting investment and supporting export industries.

Under this general model, the FNABA proposed a specific measure for the Portuguese national budget for 2012. It allowed a deduction of 20 per cent of the amount invested from the tax statements of registered business angels. However, if the investment is in a company that has been trading for less than three years, the specific deduction would raise from 20 to 30 per cent. A similar scheme exists in the United Kingdom, where a ceiling on tax relief was increased from £0.5 million to a £1 million, a clear indication that the UK government is interested primarily in awarding investors with additional

³⁴ Video interview, see www.fnaba.org [accessed 12 May 2012]; also available on Youtube, see <http://www.youtube.com/watch?v=pxeDjOQ5DZ8> [accessed 12 May 2012].

³⁵ *Diario Económico* on 29 February 2012, p. 10.

incentives to invest. Moreover, as of April 2012, the British government introduced the Seed Enterprise Investment Scheme (SEIS) to encourage investment in early-stage small businesses. Investors, including directors, can receive initial tax relief of 50 per cent on investments of up to £100,000 and Capital Gain Tax (CGT) exemption for any gains on SEIS shares. Individuals cannot hold more than 30 per cent of the company. Furthermore, the company must have 25 or fewer employees and gross assets of up to £200,000. The investment business must spend all the money raised within three years of receiving it on the qualifying business activity. The tax relief cannot be claimed until at least 70 per cent of the money raised has been spent within the same year.

Moreover, the FNABA has urged the Portuguese government to create a co-investment fund to support the internationalisation of the Portuguese economy. In this case, the proposed framework is similar to the Seraphim fund scheme, which is currently in place in the United Kingdom.³⁶ This new fund would have the support of COMPETE: with the overall percentages that each partner is required to invest in the fund set at 65 per cent (government), 10 per cent (entrepreneurs) and 25 per cent (business angels) both national and international.

The FNABA also argues for the development of a special tax regime for foreign business angels investing in Portugal, as well as for business angels participating in business projects that are considered by Portuguese public bodies as being of national interest.

Additionally, the FNABA is proposing an international marketing campaign with the support of Portuguese diplomats.³⁷ This will be introduced in cities where there is a strong Portuguese immigrant community. This includes Toronto, New Jersey in North America, Sao Paulo in South America, Johannesburg in South Africa and Macao in Asia. This will be done in order to develop a network of contacts that could facilitate

³⁶ Seraphim is an early-stage venture capital fund that invests between £0.5 million and £2 million into high-growth early-stage UK businesses.

³⁷ The proposal is reported on the website at: http://www.fnaba.org/doc/FNABA_apresentacao.pdf [accessed 19 June 2012].

Portuguese exports and foreign investment with the support of Portuguese business angels. Although continuing to expand internally, in the near future, the Portuguese business angel community aims to develop an international network of informal investors that could have an impact on Portuguese export capacity. This project will involve not only Portugal's business angels but also be bolstered by the support of the international business angel community and informal investors from the different Portuguese communities that exist in various locations worldwide.

After discussing the way in which Portuguese informal investors are planning for the future, it is important to investigate the profiles of Portuguese informal investors. Little is known about these individuals or about their investments, unlike investors in other countries, such as the United Kingdom. The next section will concentrate on this topic.

3.1.9. Research into Portuguese business angels

As part of the DBA research, a number of sources were investigated to see if there was any existing research published regarding Portuguese business angels. An extensive search of current research and researchers, literature and multi-media sources, including national and international press magazines, and journals, books, chapters in books, interviews on TV and radio was undertaken. This revealed no evidence of research into business angels in Portugal. Without a list of references on Portuguese business angels, the most important figures in this industry in Portugal—founders or current leaders of the most representative clubs—were approached, and then interviewed, to discover if they had any knowledge about existing research pertaining to the Portuguese informal venture capital market. The answers collected were as follows:

“I don't know. There was a lady that worked, I think, at Santander [a bank] that has started a sabbatical and went to London”.

The account contained very few details and it was not possible to identify either the author or the paper. Another interviewee mentioned that:

“I believe that there was a work done in a professional school, a professional school in Lisbon.”

Again, there was no clear reference to the author. Both accounts are somewhat compatible with the fact that there has been no evidence, thus far, of any significant research that has been done in this subject area. A book, published in Portugal (Banha 2000), focussing on venture capital was eventually located and there were some references to business angels in Portugal.

It appeared, therefore, that here was a research gap that needed to be filled in order to expand knowledge about Portuguese informal investors: their profiles, their past history, and their current investments. Due to the contacts that were made with business angels in Portugal, it was possible to work with the representatives from several clubs. Some of these informal investors agreed to participate in the research exercise.

The aim of the questionnaire³⁸ was to identify the profiles of the formal investors and their investments in the past, present, and in the future. Additionally, the questionnaires were designed in a way that permitted the use of the Cronbach’s alpha³⁹ technique to assess the consistency of the given responses and also allowed for comparison, using the Chi-Square test,⁴⁰ between the responses given by two classes of members: those with investment experience already and those who were still without investment experience. Finally, the relationships between the clubs and their members were investigated.

Among the various business angel networks, or clubs, operating in Portugal there is the Lisbon Business Angel Club (the Investors’ Club of Lisbon) formed in 1999 and the

³⁸ The research using questionnaires was pursued under and objectivist ontology. Further details of this part of the research can be found in Document 4.

³⁹ Fisher argued: “there is a technique for checking the reliability of statements, known as Cronbach’s Alpha” (2004: p. 166), but to this Burglear added, “Researchers are often tempted to use Cronbach’s Alpha because it appears to give an overall and easily understandable reliability check on an entire data set, on a scale of zero to one, perfect reliability yields an alpha value of one” (2005: p. 612).

⁴⁰ Burglear addresses the issue of reliability by advising: “to test the hypotheses the sample results must be consolidated into test statistics in the form of a measure of contingency. This test statistic is known as chi-square” (2005: p. 570).

Cascais Business Angels Club founded in 2006. As Table 3 (below) illustrates, both clubs currently have an active formal membership according to their leaders, who suggested in addition that questionnaires should be sent to 50 per cent of the most active members as it was unlikely that others would respond to it.

	Lisbon Business Angel Club	Cascais Business Angel Club
Active Members	50	40
Questionnaires sent	25	20

Table 3: Sample size and number of questionnaires: (+) and (++) are the estimated number of active business angels per club, according to their leaders. The number of questionnaires to be distributed was agreed beforehand with the clubs' leaders. Source: the author's own.

At the time the questionnaire was designed most of the clubs had only just started to operate and had limited investment experience. The decision was made, therefore, to focus on the four most dynamic clubs in operation: the Lisbon Club, the Cascais Club, the Invicta Club and APBA. Unfortunately, support from two of these clubs for this research project was not forthcoming. In Document 2 (Gouveia 2007b), there is a detailed overview of the findings of the research on business angels performed world-wide. As part of Document 4 (Gouveia 2009), there is a record of the two business angel clubs involved in this research project. After initial contact with the leaders of the two clubs, in which the details and objectives of this research project were identified, a number of questionnaires were sent out—45 in total (as detailed in Table 3 above)—to the clubs' members. The number of questionnaires to be sent out was decided on the advice of the two clubs' leaders. Following further discussion with them, it was decided that it would not be productive to send out questionnaires by post to members of the clubs as they would probably not respond.

The questionnaires, therefore, were sent to the offices of the two clubs, which in turn, redirected each pack to its members. The packs contained a paper-based questionnaire, a letter of explanation about the researcher and the aims of the research, together with a pre-paid return envelope. Furthermore, it was agreed with the clubs' leaders that each

club would send out reminder emails to those to whom the questionnaire had been sent if they had not replied within a certain timeframe.

The analysis of the responses received (the response rate was around 40 per cent) made it not only possible to extract a number of interesting conclusions, but also to identify some hidden aspects, and detect the research gaps that should be addressed in the future.

3.2. Key findings

According to the analysis of the questionnaires, Portuguese business angels, generally speaking, are middle-aged individuals, predominantly male, with extensive professional experience. In terms of professional background, the economic sectors which provided the most business experience to business angels were: consultancy (the most important), financial services, the building industry and information technology (IT) and computer science and engineering. The majority of them were company owners or, alternatively, held high management positions when they decided to invest as business angels.

Portuguese business angels tend to invest—and the investment experiences are diversified—close to home. The basic motivation behind their investments is economic: detection of a good business opportunity, which is a euphemism for profit. In general, they are keen to participate in co-investment experiences, either with other business angels or, less likely, with formal venture capital companies. Two-thirds of the amounts invested are below €100,000 per project. The most attractive sectors seemed to be tourism, leisure, computers, IT and telecoms. The investments often take place at the pre-seed and seed phases. For those who have already withdrawn, they left not because they were successful but because the venture failed.

While tax incentives are believed to have a positive impact on the development of the Portuguese business angel industry, the fact is that informal investors tend to participate in the management teams—holding various managerial positions—in the projects in which they have invested.

For those members of the business angel clubs with as yet no previous investment experience—“potential” business angels—the first investment was expected to take place within three years. However, the research indicated that the majority of respondents expected to invest within a year. The amount they expected to invest is below €100,000 and 80 per cent of the respondents would consider investing close to home.

Co-investment is an attractive alternative for informal investors, on whom tax incentives are likely to have a positive impact on the development of the informal investment industry in Portugal. In this, they share the opinion of those business angels with investment experience. In Portugal, investors are most likely to invest in industrial products and services, while computer science and engineering and IT are the least likely sectors.

“Would-be” business angels expressed that they would want to participate in the management teams—occupying various managerial positions—of the projects in which they would be financially involved. Informal investors tend to participate in events promoted by their own clubs. They believed that clubs should send periodic information to their members, but not very often, preferably using electronic means. Once every six months is the preferred alternative.

Using the chi-square test of independence, the relations (if any) between responses obtaining to different questions was analysed. Several null hypotheses were tested.⁴¹ In all cases it was not possible to reject them. In order to assess the consistency of the questionnaire, the Cronbach-alpha test was employed. The results obtained were satisfactory, which means that there is evidence of consistency in the answers given by business angels.

This research involved, so far, two business angel clubs. However, the objective is to extend this research to most, if not all, of the existing business angel clubs in Portugal.

⁴¹ The full explanation of the null hypotheses can be seen on Gouveia Document 4 (2009).

3.2.1. Hidden results of this research

The research reveals that there is still ignorance regarding both the sourcing process and the screening mechanisms. As there is no centralised body responsible for the screening process it would appear that not all clubs use the same procedures and methods during screening. The process appears to be de-centralised. However, some clubs prefer that the screening should be performed on an outsourcing basis, as is the case with the Cascais Club.

The number of members in each club has been steadily increasing, as have the number of clubs throughout the country. However, the number of business angels that have left the clubs is still unknown. The same is true about those, who, while formally considered members, have effectively kept themselves away from the club's activities. There is little knowledge about the internal dynamics existing within the different clubs, as well as within the Federation.

It is also useful to note here, that there are local activities in the business community and universities; also that there are national activities that involve different business angel clubs. On an annual basis, there is a national road show that involves a number of important cities and clubs. There is limited knowledge about the dynamics that exist between business angels, their networks, and these external entities.

3.2.2. Limitations of the research

There were a limited number of responses received. Moreover, there was also a limitation regarding the number of clubs involved in this first research. The low number of responses is difficult to overcome, as it is a recurrent concern in the research produced about business angels. The other constraint can be overcome by involving more clubs in this research.

3.3. Conclusions of this quantitative-based research

This, the first investigation undertaken in Portugal into business angels, has made possible the extraction of the preliminary findings, which cannot be generalised, concerning Portuguese informal investors. This research, supported by an objectivist, ontology, also allowed the identification of a number of research gaps to be addressed in the future. Chapter 5 will explore business angels and their networks in the United Kingdom, one of the most developed in Europe, where there is extensive published research on informal investments. In addition, a brief overview of the research into informal investments in Scandinavia and the United States provides context and contrast for the two main geographic areas to be explored. This succinct literature review precedes chapters 8 and 9 where the major findings from the research in both Portugal and the United Kingdom will be identified and discussed.

This research reveals that there has been little research to date based on subjectivist ontology into business angels in the United Kingdom or Portugal, as emerges from Table 5 (p. 77). This document, therefore, will attempt to address this knowledge gap. However, there are several fields to be explored, namely the way that business angels encourage entrepreneurs and vice versa, and how informal investors represent other business angels, especially in co-investment environments.

4. Conceptual Framework

This section frames the grounds upon which analysis and discussion will take place. From an early stage, the data gathered in this research is supported, in the main, by objectivist ontology on the basis that there is an outside world independent of the subject, and that this reality needs to be understood and explained.

The key themes that arose from the literature review and from the research carried out in Portugal (Appendix A, p. 141) were fed into the semi-structured interviews carried out both in Portugal and the United Kingdom.

The interview analysis included considering the ways in which the individual interviewees' narratives incorporated the themes and topics addressed by the interviewer's questions and topics raised during the interview. These questions themselves were guided by the results of the literature review as emerges from the conceptual framework, and were embedded into the narratives of the business angels. The conceptual framework involves linking and connecting two different concepts: the construction of the informal investors' personality profiles; and the ways in which they map out their "out-there". To understand how business angels construct their "self" and their environment is of crucial importance to structuring a relationship with them.

To facilitate better connection with, perception and understanding of Portuguese business angels and their structure of "self" and "out there", a comparison with another business angels' market, the United Kingdom, which is one of the most developed markets in Europe, as emerges from the literature review.

The aim, therefore, is to investigate both the construction of the "self" among business angels, and simultaneously, to map the process of their "out-there". A narrative that has the "out-there" embedded in it also implicitly contains ideas about the future of the industry, the different economic sectors, and its organisation.

The bottom of Figure 3 (below) summarises the aims of this research. It explores the way business angels construct “self” and suggests the connections that may exist in their linguistic constructions of their “out-there”; the ways in which they see business, investment opportunities and expected profitability.

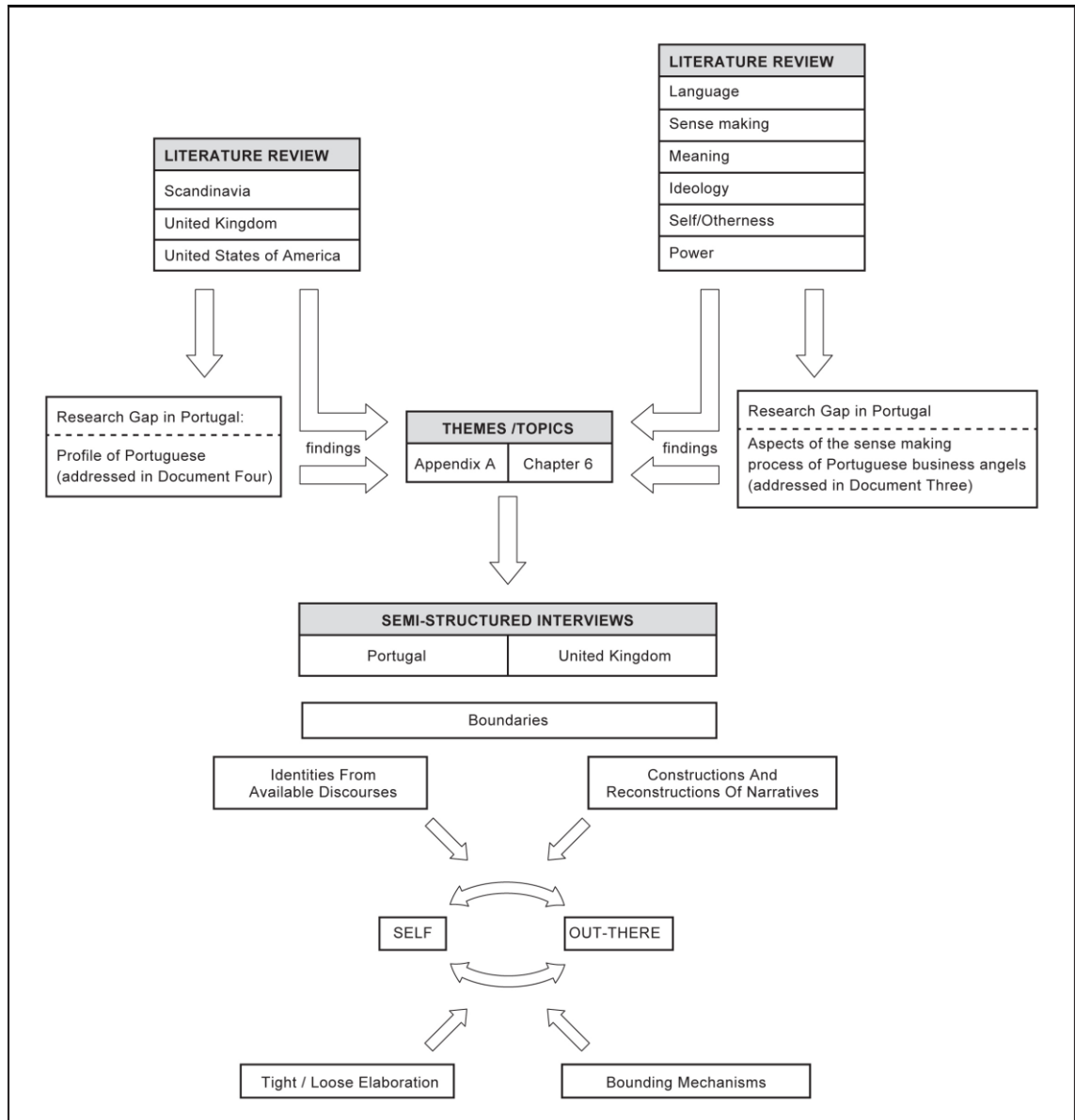


Figure 3: Conceptual Framework. Source: the author’s own.

Figure 3 (above) visualises the proposed relationship between the two dimensions. There is the “self”, which is seen as “unique, different to all other selves” and which may also be viewed as “fragmented, inconsistent and distributed” (Jackson and Carter 2007: p. 182). A consequence of consideration of the “self” is the corresponding mapping of the “out-there”. It is interesting that there may be a conceptual overlapping between “self” and identity, which are at times joined (Gabriel 2008). Within the text it is important to understand that the narratives produce objects, which in turn are embedded into the discourse.

It is also important to comprehend how the narratives produced about business angels address the developments of the angels’ networks and how this connects with the entire industry. These networks are intermediary corps: they lie between entrepreneurs seeking capital, management, and investors. These networks did not exist in Portugal until 1999, and so the question is, where did they emerge from and under what circumstances? Berger and Luckman (1967) suggest, interestingly, a framework in which there is externalisation and then internalisation. With regard to the Lisbon business angels, the network received extensive media coverage at the time it was founded. It could be conjectured, therefore, that out of this publicity the concept was then embedded into the ever-changing narrative.⁴²

Bounding mechanisms were used to link the two realities crafted by the interviews with business angels. It is necessary to question what kind of realities they portray. While there is the “self” or the construction processes of “self”, there is also the mapping process of the “out-there”. Between these two realities, there is the linguistic glue that connects them. These bounding mechanisms will also be investigated, as they are of relevance to this research project.

Finally the research will attempt to identify the major motivations behind business angels’ actions. This is both discernible and extractable from the interviews and from the ways in which business angels, in both the United Kingdom and Portugal, have

⁴² See <http://www.businessangels.pt/> [accessed 4 April 2012].

framed their own “out-there”; how they perceive their business environment, investment opportunities, profit planning and partnerships, and also the ways in which they construct their own identities.

4.1. Self and Identity

Self is what renders the individual business angel unique. This personalisation is framed within the collective identity and the individual’s “out-there”. The construction of self is a laborious, continuous and never-ending social process which, as Gabriel argues, is self-constructed: “At the individual level, identity refers to the person’s comprehension of him- or herself as a discrete entity” (2008: p. 136).

The portfolio of available discourses is linked to a number of associated identities, which may be captured by the self. Burr argues that, “social constructionism paints a picture of the person as multiple, fragmented and incoherent. We have a multiplicity of different selves, each called forth or conjured by our immersion in discourse and in process of social interaction” (2007: p. 141). Identity, according to Burr is, therefore, chameleon-like, changing according to the individual’s agenda “it is you who are doing the identifying and the identity you confer has more to do with your purposes than the natures of the things itself” (Burr 2007: p. 106).⁴³ Identity is also a social construct, whereby Burr argues “identity is constructed out of the discourses culturally available to us, and which we draw upon in our communications with other people” (2007: p. 106).

Another layer of complexity is added therefore when the individual self is added to the social self, the latter of which has several utterances. Again, it is not possible to construct the self without constructing the other and the “out-there”, just as it is not possible to construct the other without mentioning the self, which may be seen as a departure from otherness. While the “other” is associated with other individuals, and the “out there” is linked more toward the external environment, in a broader sense and to be more precise, therefore, this might mean considering further the geographic, cultural

⁴³ See Chapter 6 for further discussion about identity-construction.

and temporal dimensions⁴⁴ of the argument, that is, the close “out there” as opposed to the far-away “out there”.

According to Gabriel, self is “What each one of us refers to through the use of pronoun I” (2008: p. 261). Burr argues, however, that the self emerges from the interactions with others: “Consciousness, our ability to reflect on our experience, and the self are seen as emerging from those interactions” (2007: p. 193).

4.1.1. Other and Otherness

As argued above, there is a dialectic process involved in constructing the self and “otherness”. Other and otherness exist before a notion of self, for self is the journey taken in order to depart from the “other”. Jackson and Carter argue “We are born into the pre-existing world of the Other – the Other being all people and things which are not us, or, rather, which are not I” (2007: p. 185). Other and self are the two faces of the same coin, then, although self as previously observed is not immutable, but, on the contrary, is fragmented and changeable. A similar observation can be made about other and the otherness. Both concepts are constructed and reconstructed using available discursive devices and discourses. The construction process is rather, therefore, culturally bounded to a geographic location and to a concrete reference in time.

According to Jackson and Carter otherness is the obverse of self: “self is a product of semiotic interpretations of the Otherness” (2007: p. 187). With reference to business angels, therefore, it may be argued that the way in which otherness, that is, other investors and relevant stakeholders are perceived by them, will in a certain way frame the way business angels or informal investors construct themselves.

⁴⁴ It is not possible to make this assertion without remembering the British novelist and short story writer L. P. Hartley’s (1875–1972) comment that “The past is a foreign country: they do things differently there”.

4.1.2. Bounding and Boundaries

Boundaries “are just human constructs and they can be changed” (Jackson and Carter 2007: p. 208). Boundaries embedded in discourse can change just as discourses can change. There are discourses where boundaries are clearly defined, but others where these linguistic devices are not so much in evidence. Jackson and Carter concur: “Boundaries are not fixed, natural or obvious” (2007: p. 209). Gabriel agrees that the boundaries of discourse are mutable but argues that “Instead, social constructionist theorists argue that boundaries along with many other social phenomena are negotiated, maintained, dissolved, and redrawn through social interaction” (2007: p. 19).

Meaning itself is just as mutable as boundaries, as Tiezle et al. point out, meanings of words are seen as “unstable, dependent on context and perspective” (2007: p. 12). In addition to the boundaries of informal investors’ discourses, there are also the bounding mechanisms associated to the construction of the narrative: the sensemaking process. Tiezle et al. argued, “Given this inherent dynamism and arbitrariness, on a practical level one might ask how signs work together to make sense” (2007: p. 23). While Weick enumerated a number of characteristics associated with the sensemaking process (1995: pp. 17–62), Gabriel noted that, “sensemaking is grounded in people’s constant struggles to construct their identities” (2008: p. 263). These bounding mechanisms exist as narrative artifacts carefully employed in the construction of the self as well as in the construction of otherness.

4.1.3. Loose and Tight

The bounding mechanisms employed in narratives as well as the boundaries of the discourses are not fixed or unchangeable, but as suggested by the argument above, result from the constant interaction between actors. Self is always in the process of construction therefore — whether business angels or other actors — the construct might be a detailed account or, alternatively, a loose construction. Sometimes self is constructed through defined axis while in other circumstances the self is constructed less tightly with looser associations.

Whether the looser construction of the self is mirrored in a looser construction of the “other” and of the “out-there” is worth considering briefly. It could be argued that there may be, although it is unlikely, an asymmetrical construction of self and “out-there”, that is, a loose construction of self is hypothetically matched by a tight creation of the other and of the “out-there” or vice-versa.

A loose discourse it could be argued therefore might be linked to the position the actor holds within the organization; the higher the level in the hierarchy the tighter the construction; the lower the level in the hierarchy, the looser the construction.

4.2. Concluding remarks

The available discourses are employed to frame not only associated identities but also the self. This construction process is not static but, on the contrary, an evolving phenomenon that meets with the construction of the “out there”, involving the other and otherness.

The construction and reconstruction process is, as argued, a non-stop and dynamic process involving a more or less detailed account of the self. Sometimes the construction of self is a laborious process, but in other circumstances, the details are almost absent in the narrative.

The bounding mechanisms are evident, not only within the process of self-construction and reconstruction, but also in the social process of constructions of the “out-there”. Together with these two different processes is the linkage construction. This link is best captured by Weick who defines it: “Depending on who I am, my definition of what is ‘out there’ will also change” (1995: p. 20).

5. Business Angels in the United Kingdom and in Other Geographies

Before beginning the literature review in the next section, the findings of the most recent reports issued in 2009 and 2010 by the GEM (Global Entrepreneurship Monitor) about the entrepreneurial climate in the United Kingdom will be summarised. In 2009, in the United Kingdom, as expected, a decline in the perception of opportunity emerged when compared with previous years. In fact, this document argues, “Between 2007 and 2009, there was a decline in opportunity perception, in the perceived merit of starting a business as a career choice” (GEM 2009: p. 4).⁴⁵ Although the total early stage entrepreneurial activity, or TEA, was broadly the same as it had been in 2008, the percentage of the adult population actively trying to start a business in mid-2009 was 2.7 per cent, a decrease of 4 per cent when compared with 2008, and much less than the numbers observed by the G7 (an 18 per cent decrease) and for the USA (a 17 per cent decrease). Adding to these sombre figures, in 2009, there was a two-fold increase “in the number of nascent entrepreneurs who tried and failed to secure funding from friends and family, other individuals and unsecured bank loans and overdrafts” (GEM 2009: p. 5). However, as the report from 2010 demonstrated, there was slight modification when compared with the previous year. The report notes “a recovery of entrepreneurial attitudes and intentions to 2008 levels was evident in 2010 after a slight dip in 2009” (GEM 2010: p. 5).⁴⁶

Research into business angels or informal investors in the United Kingdom, as mentioned in the introduction, began in the early 1990s, and a similar interest in studying them became apparent in North America. In the last twenty years Mason and Harrison have become known as prolific researchers into business angel activities, having published extensively on business angel activity in the United Kingdom. In

⁴⁵ GEM UK 2009 at: <http://www.gemconsortium.org/docs/655/gem-uk-2009-report> [accessed 21 July 2012].

⁴⁶ GEM UK 2010 at: <http://www.gemconsortium.org/docs/656/gem-uk-2010-report> [accessed 21 July 2012].

addition to these two authors – who since 2009 have continued to produce an annual report on business angels, other published works include those by Macht (2009; 2011) and Wiltbank (2009), to name only two.

5.1. Introduction

The influential authors Harrison and Mason (1992) make a comparison between the business angels markets of the United Kingdom and those of the United States of America. The starting point is the equity gap. The authors make reference to the fact that the financing sources of new ventures and growing companies are below the expected level. One of the consequences of this equity gap is the surge of business angels, or informal investors, who “make small scale investments in new and early stage ventures, where the gap is more significant” (1992: p. 459). There are also inefficiencies in the United Kingdom informal investor market resulting from difficulties in communication between supply and demand. Harrison and Mason argue that it is these inefficiencies, “identified by Wetzel (1987), (which reflects the invisibility of informal investors, the fragmented nature of the market, and the imperfect channels of communication between investors and entrepreneurs) is compounded in the case of the UK” (Harrison and Mason 1992: p. 460). This imbalance convinced the authors to mention that this market is an underdeveloped one (Harrison and Mason 1992). It is implied that, were the communication better, the informal investor market would be even more important. The research concludes that “the information networks available to UK informal investors are less effective than those in North America, and in particular appear to contain lower quality information and a high degree of redundant information” (1992: p. 460).

Apart from the existing equity gap and the limitations detected in the UK business angel networks, banks “from the beginning of 1991 to mid-1993, when business failures were at their peak, the clearing banks had to provide over £3 billion against possible losses in a small business loan book of £45 billion (Bank of England 1994)” (Mason and Harrison 1996: p. 5). However, banks are good sources of information and advice to

small businesses. Formal venture capitalists are less and less interested in financing small businesses and seed projects (Mason and Harrison 1996). Under these circumstances, the creation of the so-called BIS (Business Introduction Services) was proposed, which “provides a channel of communication between entrepreneurs seeking to raise financing and provide investors seeking to make investments in unquoted companies” (Mason and Harrison 1996: p. 11). The main objective of these structures was to overcome the existing inefficiencies in the informal venture market (Mason and Harrison 1992). The costs associated with these proposed structures, according to the authors, should be financed by banks (Mason and Harrison 1996: p. 11). BIS would provide a new channel of communication between supply and demand of financial resources (equity).

In 1996, Harrison and Mason, while discussing the promotion of the informal venture capital in the United Kingdom referred to the equity gap once again. They mentioned that small companies are over-exposed to debt and “equity accounts for a small proportion of the overall finance used by SMEs” (small and medium sized enterprises) (Harrison and Mason 1996: p. 6). Further to this, they write that business angels are those “who provide risk capital directly to new and growing business with which they have no prior connections” (Harrison and Mason 1996: p. 10). Once again, there is a reference to the market inefficiency and to the need to develop new forms of supply to communicate with demand. In this research, a distinction is being made between experienced angels (those with investment experience) and virgin investors, “individuals with the same self-made, high net worth characteristics as active angels but who have not, for whatever reason, entered the informal venture capital market as individual investors” (Harrison and Mason 1996: p. 12). Finally, Harrison and Mason address BAN (the Business Angels Network) as a new alternative to overcoming the inefficiencies of the market, through the publication of relevant material and promotion of conferences and forums.

Harrison and Mason also come to the conclusion that when studying other factors, apart from communication difficulties influencing the supply of informal capital, that the equity gap has widened due to changes in the banks’ lending policies to SMEs. This line

of reasoning comes directly from the research gap identified in earlier studies. Among the most important constraints of deal-making were: poor quality of the proposal and difficulties in negotiating acceptable investment terms.

However, a more specific line of research was started by studying the complementarities between business angels and venture capitalists (Harrison and Mason 2000). Although it seems that formal venture capital has left the seed and start-up phases of investment, this report argues that, “significant complementarities exist in the UK between business angels and venture capital funds” (2000: p. 240). This research mentions that for business angels, unlike formal venture capitalists, “co-investment is the most frequent form of complementarity” (2000: p. 240). However, for venture capitalists, “the cross-referring of investment opportunities is the most commonly cited form of complementarity” (2000: p. 240). To sum up, the degree of interconnection of these two different segments is higher than expected.

These two forms of venture draw attention to their relative dimension, a theme that has been addressed several times (Harrison and Mason 1996) and (Mason and Harrison: 2001). In 1996, they reasoned that, “the informal venture capital markets in the UK are also significantly larger than the institutional capital industry” (Mason and Harrison 1996: p. 7). In 1996, they further stated that “the informal venture capital market is the largest source of risk capital for entrepreneurial companies, and in the UK is almost twice as important for the SME sector as the institutional venture capital market” (1996: p. 11). More specifically, they have asserted: “Our calculations conservatively indicate that there were around 20,000 business angels in the UK in 1998–1999 (equivalent to one for every 2,200 adults). They invested £500 million in about 3,000 businesses” (Mason and Harrison 2001: p. 144).

In 2002, Mason and Harrison resumed their interest in studying the profitability of business angels in the United Kingdom. The findings were “that distribution of returns is highly skewed, with 34 per cent of exits at a total loss, 13 per cent at a partial loss or

break-even, but with 23 per cent showing an Internal Rate of Return (IRR), of 50 per cent or above” (2002a: p. 211).⁴⁷

It is interesting to note that many business angels “are willing to allocate a higher proportion of their investment portfolio to investments in unquoted companies, with recent tax incentives having a positive effect on their willingness to invest” (Mason and Harrison 2002b: p. 271) In spite of this, a number of barriers have emerged preventing investment. The most relevant being difficulties in identifying deals that meet business-angel investment criteria.

From the supply point of view, Harrison and Mason argued that UK business angels are predominantly male, with a solid financial situation and with connections to entrepreneurs. They tend to be older than their American counterparts (Mason and Harrison 1992) and they prefer to invest in the start-up phase. However, investments tend to be small-scale at around £50,000 a year (Mason and Harrison 1996). They tend to remain in the business for a long time and the expected return is below that required by formal venture capitalists (Harrison and Mason 1992). More significantly, in the United Kingdom, research began to construct the business angel model from the concept of the equity gap. This is a recurring reference in the published literature produced both in the United Kingdom and in Scandinavia.

Another issue to consider is whether business angels invest alone or participate in syndication. The authors wrote that investors “operate independently with syndication with joint investment being relatively uncommon” (Harrison and Mason 1992: p. 460). In another work written by the same authors, they mentioned that, to their surprise, there had been significant complementarities between informal investors and venture capitalists in the “start-up and early stage investment” (Harrison and Mason 2000: p. 240). Business angels need three kinds of relationship: an association with formal investors and also directly with other business angels, or indirectly through Business Angels Networks (BANs). This, as mentioned before, replaced the former concept of

⁴⁷ According to Brealey and Myers “the internal rate of return is defined as the rate of discount, which makes $NPV = 0$ ” (1988: p. 78).

BIS as a means of increasing or fostering the relationship between supply and demand. Mason and Harrison (2002b: pp. 271–87) argued that the possibility of not doing business was due to several factors: the low quality of the projects, difficulties in meeting the criteria suggested by the business angels, and difficulties in reaching an agreement on the contracts. These circumstances suggested the development of a new concept of BAN with a broader scope. The authors wrote, “Conventional BANs will not cause reluctant potential investors to enter the market, nor will they cause the owners of ‘lifestyle’ firms to attempt to expand their business by using external equity capital” (Mason and Harrison 2002b: p. 284). However, Mason and Harrison defend the new BANs saying they should actively promote ideas such as: the importance of equity, the importance of business plans, and the need to increase the competencies of the virgin business angels (Mason and Harrison 2002b).

In a report prepared in 2004, Mason and Stark concluded that when compared to bankers and venture capitalists, informal investors show less consistency in the appraisal of different projects (Mason and Stark, 2004). They wrote, “BAs [business angels] have the least consistency in either approach or outcomes reflecting the great heterogeneity in the angel population and the personalised nature of their investment criteria” (Mason and Stark 2004: p. 241).

Returning to the topic of gender it should be said, finally, that the subject was scarcely mentioned in the American research literature and rarely discussed in the Scandinavian research either. In their article “Does Gender Matter” (2007), Harrison and Mason addressed the topic of gender and pointed out that female business angels tend to support women entrepreneurs. They contended that, “Women express and offer [emotional] support rather than engage in transactional behaviour” (Harrison and Mason 2007: p. 464). Additionally, it is implied in their conclusion that women tend to have less confidence in their own abilities and tend to rely on business associates and professionals to generate new business opportunities. Women are also less willing than men to invest alone, to make decisions, and to foster relations with other business angels (Harrison and Mason 2007).

Business angels can either be studied as wealthy individuals or as investors with their own investment preferences. Earlier research showed that the market apparently suffered inefficiencies. There was little flow of communication between supply and demand. Early research pointed to the fact, that in this particular market, the match between supply and demand was achieved by the intervention of friends, other business angels or business associates.

In 2011, Macht and Robinson proposed another way of looking at business angels suggesting, “The passive-active distinction of BAs did not possess any explanatory power regarding the critical link between the BAs’ relevant capital and the perceived value of their involvement activities.” They added, “Therefore, we challenge this commonly used distinction and propose that it may be out-dated and could benefit from a novel approach” (2011: p. 276). The alternative is to consider soft-hard involvement with investee companies. Soft involvement is defined as being people-centred and interpersonal whereas hard involvement by business angels is task-centred and this “can lead to frustrations and tensions in the BA–MD [manager director] interactions” (2011 p. 276).

Clearly, in the United Kingdom, research was concentrated more (but not exclusively) on studying business angels as investors. These investors had their own investment criteria and preferences in a market that was believed to be bigger than a formal venture capital market. Research, at this time, drew attention to the inefficiencies that affect this economic sector and which posed a major constraint to its future development. Researchers at first explored the BIS concept, followed by the first-type BANs. Later in the process, it was suggested that BANs should have a broader scope in order to successfully overcome the limitations detected in the first-type BANs. It was found that, first-level BANs had limited success in promoting equity.

Macht concluded, in research focused on business angel post-investment dynamics that investees tend to help investors. Additionally, the involvement of the investees varies in degrees and ways. Moreover, business angels tend to put their business contacts at the

disposal of investors, and also that business angels have a leveraging affect “upon their investee” companies (Macht and Robinson 2009: p. 202).

The research on business angels in the United Kingdom has continued. In the following section, the major findings of the post-2008 research published in the United Kingdom will be summarised. This includes research papers and annual reports which have been produced by the British Business Angel Association.⁴⁸

5.2. Latest research in the United Kingdom

On analysis of two of the most recent researches published in the United Kingdom it emerged that there are differences between the Scottish reality and the one prevailing in the rest of the United Kingdom (Mason and Harrison 2010; Mason and Harrison 2011).

In Scotland, between 2000 and 2001 there were only two business angel syndicates. By 2008 to 2009, there were nineteen active business angel syndicates (Mason and Harrison 2010). The Scottish Angel Capital Association (LINC Scotland)⁴⁹ “mainly supports organised angel groups rather than individual angels and so the investments that they report are almost exclusively by angels investing as members of angel groups” (Mason and Harrison 2010: p. viii). In Scotland, LINC is comprised of “angels operating on their own, groups and syndicates and also family offices” (2010: p. 9). However, the numbers of angels operating solo has been decreasing from the reported 300 in 2002 to around 100 in 2006. In 2002, there were two syndicates with around 70 investors, and in 2006 there were 18 syndicates with a membership of around 400 business angels.

In the rest of UK, the British Business Angel Association (BBAA), which replaced the National Business Angel Network (NBAN) in 2003, reported having 24 associated networks (business angel networks), 20 early-stage venture capital funds and a variety of professional service providers and advisers (e.g. accountants, law and corporate

⁴⁸ See www.bbaa.org.uk [accessed 28 October 2011].

⁴⁹ See www.lincscot.co.uk [accessed 15 October 2011].

finance firms, banks, etc.) (2010: p. 8). Twenty networks responded to this survey and reported having 5,500 registered business angels.

The following sections contain the main conclusion regarding network activities, angel investment profiles and, finally, the market dynamism as well as estimates on its scale.

5.2.1. Angel networks

In 2008–2009, business angel networks raised around £63 million for 300 companies throughout the United Kingdom. In contrast to the UK, Scotland's dominant model is the angel syndicate,⁵⁰ whereas in the BBAA it is the angel network. Of the networks that responded to Mason and Harrison's questionnaire of 2010, 42 per cent of them mentioned having been established prior to 1999. In addition, these networks have several distinctions: there are large, national and commercially-oriented networks existing side-by-side with other regional and therefore much smaller organisations. Needless to say, these big networks (but small in number) account for most of the investments and business plan reviews.

In 2008–2009, the substantial amount of £44.9 million was raised by 233 businesses belonging to 20 different networks associated with the BBAA. In all, a total of 590 investors participated in the deals, resulting in an average of 2.5 investors per deal. In Scotland, LINC invested £17.9 million in 74 deals.

These 20 networks received 8,685 business plans for assessment. The distribution was unbalanced, as the four biggest networks accounted for 66 per cent of the total. A total of 824 business plans were presented to investors. Following these presentations only

⁵⁰ The annual report produced by Mason and Harrison addresses the distinction between BBAA and LINC Scotland in the following terms, "The networks which provided information to BBAA operate on the basis of 'introducing' investors to entrepreneurs seeking finance, for example, through presentation, events, newsletters, database, etc. and then step back from the process to let investors find investment opportunities that interest them and try to negotiate a deal with the entrepreneur. LINC Scotland is mainly supporting organised angel groups rather than individual angels and so the investments that they report are almost exclusively made by angels investing as members of angel groups" (2010: p. viii).

233 companies raised investment, which amounts to 2.8 per cent of all business plans received by the different networks.

Following this brief reference to the structure of the market, the following section is devoted to examining the most important trends.

5.2.2. Market dynamics

The sources of data from LINC and BBAA indicate that the visible market has grown since 2000. The market in Scotland also changed (Mason and Harrison 2010), and was reported to be more organised there than in the rest of the United Kingdom. In Scotland there were only two syndicates in 2000–2001, Braveheart and Archangels. In 2008–2009, there were nineteen. The activity in Scotland increased between 2000 and 2008–2009. The exception was in 2001 to 2003 following the “dot com” crisis. The visible market has also grown within BBAA’s perimeter.

The number of angels participating in investments has grown and the deal size has also increased. This is partly due to government intervention in addressing the equity gap through co-investment funds. The focus of angel investment rests on start-up and on early-growth stages and also on a limited number of employees. The technology sector seems to be the one preferred by angel investors, who appear to be increasingly willing to be involved in co-investment activities (Mason and Harrison 2010).

Follow-on investments have also been increasing. They represent more than 50 per cent of all investment since 2006/7. Mason and Harrison concluded that “the implication, of course, is that there is a need to continually increase the number of new angel groups in order to maintain the level of first-round investing” (2010: p. 41).

Interestingly, they also wrote that “Indeed, some commentators suggest that angels will increasingly fund their investee business all the way up the funding escalator” (2010: p. 43–4). Clearly, this is an important trend that did not exist in the past.

5.2.3. Market scale in the United Kingdom

There is a distinction between the visible and invisible business angel market (Mason and Harrison 2010). The different networks only account for part of the investment of business angels, and there is evidence to suggest that registered business angels invest outside the networks. The information provided by BBAA (UK excluding Scotland) and from LINC (Scotland) represents the visible market. This assumes these organisations are only partly aware of business angel deals and of the deals by registered angels that are done outside the networks, or those deals done by active angels not registered with any network.

Mason and Harrison (2010) followed another line of reasoning when using the information provided by the Global Entrepreneurship Monitor. GEM found that informal investment represented 0.4 per cent of UK Gross Domestic Product (GDP). Research by Bygrave et al. (2002) mentions that only 12 per cent of the investment reported by GEM is “third-party” origin—that which is independent from family, friends and fools—and received from business angels. Assuming this assertion to be accurate, the value overall of business angel investments in the UK would represent 0.048 per cent of the UK’s GDP, or £622 million in 2008.⁵¹

Another line of research opened by Mason and Harrison in 2010 involved the analysis of the information provided by the Enterprise Investment Scheme (EIS). These researchers stated that there is “a final EIS-based estimate of the scale of the business angel market in the UK of £413 million in 2007–2008 and £290 million in 2008–2009” (2010: p. 49).

Compounding these three distinct estimates, Mason and Harrison concluded that, “the overall visible and invisible business angel investment market in the UK in 2008–9 was in the order of £400 million” (2010: p. 49).

⁵¹ In 2008 the UK’s GDP was £1296 billion, see Mason and Harrison (2010: p. 47).

5.2.4. Angel research

According to Wiltbank's research, which involved 153 informal investors, the average investment size was around £42,000 (2009: p. 13). There were, on average, six investments per business angel. The typical informal investor seems to devote 10 per cent of his own personal wealth to this type of investment (2009: p. 12). In a more recent study, (Mason and Harrison 2010) reported that one-quarter of the respondents did not invest in the 2008–2009 tax year. The remaining business angels tended to invest between £10,000 and £500,000. However, three-quarters of the respondents confirmed that they had invested between £10,000 and £75,000 (2010: p. 35). Another result obtained was that at least half of the respondents invested partly through angel syndicates; only 25 per cent always invested through angel syndicates. However, big investors were less likely to invest exclusively through networks, and more likely to participate in co-investments.

From Wiltbank's research, it emerged that the median age of business angels is 53 years with around 13 years' business experience in relevant companies (although a significant number of business angels mentioned having worked in the public sector). Moreover, they have on average five years' experience as informal investors and have invested in 2.5 new ventures during this period. More than 90 per cent of the informal investors were male. Virtually all of them mentioned having university degrees and more than half had advanced degrees. Although Mason and Harrison (2010) did not investigate the profile of business angels in their report, they did mention that the majority of them were male. Wiltbank found that 93 per cent of respondents were males (2009: p. 12).

In addition, 44 per cent of the respondents reported having invested 5 per cent of their wealth. This is lower than the limit of the typical investor. With regard to geographic distance, only 28 per cent of the respondents have invested in ventures within 50 km of their home, whereas 43 per cent were prepared to invest in ventures at a distance of more than 250 km from home.

When questioned about whether this type of investment provides good returns, responses were pessimistic at this level (Wiltbank 2009). Of the exits reported by the respondents, 46 per cent were at a loss “with most of them losing their whole investment”. However, 44 per cent of the exits showed substantial gains leading to an average multiple of 2.2. It is clear that the returns are not normally distributed around the mean, as 9 per cent of the exits produced 80 per cent of the cash returned.

In terms of preferences, the majority of the informal investors—6 per cent in these responses—used the Enterprise Investment Scheme (EIS) in some of their investments. (Mason and Harrison 2010) However, more than half of the respondents mentioned that their level of investment would have been lower if there had been no EIS in place. However, Wiltbank’s research indicated that EIS was used in 57 per cent of the investments (2009: p. 12). This is not incompatible with the conclusions from Mason and Harrison’s research as the majority of the respondents in both reports were, as expected, keen on using EIS benefits.⁵²

5.2.5. Concluding remarks

The starting point is to mention the existence of two distinct markets: Scotland, and England and Wales combined. While Scotland differs from the prevailing markets in England and Wales, both markets have changed substantially in recent years. This is more noticeable in Scotland.

There has been an attempt to estimate the scale of the whole business angel market. According to some authors, it represented around £400 million in 2009 (Mason and Harrison 2010). Most of the networks were formed before 1999 and are small; half of them have three or less employees. Some are commercially oriented, benefiting from having national coverage and with more than 500 members each, mostly men.

⁵² Wiltbank suggested the following as a policy recommendation: “A higher level of EIS tax relief—moving from the current 20 per cent to 30 per cent tax relief should be provided to angel investors making very early-stage investments in micro SMEs, where significantly higher investment risks can be identified”(2009: p. 8).

Others, however, are regional and not-for-profit-type of organisations. The bigger networks tend to review more business plans. Roughly speaking, one in ten business plans that were screened were later presented to investors. From those, about one-fifth was financed.

Wiltbank concluded in his research, that on average, investment did not exceed £42,000 (2009: p. 13). For these investors, profit is by no means certain after a successful exit. The conclusions from other research (Mason and Harrison 2010) are not incompatible; three-quarters of the screened informal investors mentioned invested less than £75,000 in 2008–2009.

Despite that, the number of business angels “has, in all probability, done no worse than remain static between 2008–2009 and 2009–2010, and, based on data on flows, may actually have increased” (Mason and Harrison 2011: p. 6). In terms of investments, Mason and Harrison have stated, “There has been a *slight* shift in favour of smaller investments: 70 per cent of angels invested less than €75,000 in 2009–2010 compared to 64 per cent in 2008–2009” (2011: p. 8).

Market dimension is another relevant variable. In investigating if there were changes last year when compared to previous years, Mason and Harrison argued, “Our overall estimate for angel activity in the UK in 2009–2010 is £317.7 million. This analysis suggests that overall angel investment in the UK has declined by 25 per cent in 2009–2010 compared with 2008–2009” (2011: p. 9). However, Mason and Harrison introduced a note of caution, warning, “However, it needs to be remembered that other measures of angel investment activity show much less change between 2008–2009 and 2009–2010. Moreover, angels were able to leverage in more finance from other investors in 2009–2010 than in 2008” (2011: p. 9).

Despite the extremely difficult market conditions in 2009 and 2010, there has been a small increase in the number of investments “amongst BBAA member networks (20+ investments; 9 per cent) while investments by those angels affiliated with LINC

Scotland increased marginally (4+ investments; 5 per cent)” (Mason and Harrison 2011: p. 7).

5.3. Business angels in Scotland

The report from 2008–2009, refers to a difference in the structure between England BBAA and Scotland LINC (Mason and Harrison 2010). According to this report, the dimension of this market in 2008–2009 was £51 million. In 2009–2010, business angel investments were “almost unchanged from the previous year” (Mason and Harrison 2011: p. 36).

According to Harrison, Scottish, business angels tend to organise in syndicates “investing together under common terms and conditions” (2008: p. 44). Scottish business angels dominate the market in terms of deals reported (2008: p. 46). Through these syndicates Scottish informal investors are able to invest in more deals, also in larger deals and “benefit from sharing the transaction cost such as legal fees and due diligence” (2008: p. 44). There is little co-operation between Scottish informal investors and venture capital firms according to Harrison. He states that it is to be expected that informal investors would, at a “certain stage of development then ‘pass the baton’ to VCs with deeper pockets” (Harrison 2008: p. 44).

In 2008, the amount invested by LINC members was £17.9 million in 74 deals, from a total in the UK of £62.8 million. The Scottish investment overall, therefore, weighs-in at less than 30 per cent of the deals made in the United Kingdom. In 2009, the amount invested rose to £18.2 million in 78 deals. This is a “noteworthy increase given the extremely difficult economic conditions in 2009–2010” (Mason and Harrison 2011: p. 20).

The fact that the markets are organised differently in the UK than in Scotland has to be taken into account. In Scotland, LINC tends to support “organised angel groups rather than individual angels” (Mason and Harrison 2010: p. viii). Deals made through LINC

are larger, although only 8 per cent of all deals registered by LINC solely involved angels (Mason and Harrison 2009: p. viii).

Networks of business angels are very strong in Scotland. Paul and Whittam (2009), in a study involving thirteen Scottish-based business angel syndicates, focused mainly on gatekeepers. These are “the individuals who control access to and manage much of the day-to-day operation of these investment syndicates” (Paul and Whittam 2009: p. 3). They concluded that business angels’ syndicates had been taking an increasing share of overall angel investments. Syndicates have their own gatekeepers who tend to be “well-educated with degrees and/or professional qualifications” (2009: p. 3). In Scotland, the research identified two types of gatekeeper: the “member gatekeeper” and the “manager gatekeeper”. In small syndicates, the one who takes the leading role is the member’s gatekeeper, whereas (according to this research) a bigger organisation might recruit a manager gatekeeper “sometimes to work on a part time basis” (2009: p. 3). In Scotland, the deals appear to be bigger than in the United Kingdom. This is partly explained by the Scottish business angel syndicates being responsible for an important part of the informal investment.

Although the market in Scotland is different from the rest of the United Kingdom, LINC investment tends to be biased towards small companies. In 2008–2009, more than a quarter of the investments were made in companies that employed less than ten employees. In this period, LINC Scotland (The Scottish Angel Capital Association) deals tended to be larger, with more co-investments, and with a greater capacity for “follow on” investments, when compared with the rest of the United Kingdom.

In 2009–2010, the investments made by members of LINC were larger than investments made by members of the British Business Angel Association (BBAA). In 2011, Mason and Harrison reflected on “the impact of the Scottish Co-Investment Fund” and asserted that the majority of investments in Scotland were made by angel groups (p. 7). In 2010 they wrote, that in Scotland, “The majority of investments are follow-on deals which we interpreted as reflecting the greater investment capacity of angel groups” (2011: p. 7). They also said that these were oriented towards small companies. Finally, “Scottish

angel groups had a much stronger focus on biotech/medical/health (33 per cent)” (2011: p. 8).

5.4. Research on business angels in North America

Haar, Starr and Macmillan profiled informal risk investors of the East Coast of the USA. They defined the market by saying that “this opaque market consists primarily of friends and business colleagues who provide modest funds of money (\$20,000–\$50,000), but are often able to use their networks to assemble a group of investors who will sponsor the entire funding requirement” (Haar et al. 1988: p. 11). It can be inferred from this that informal investors tend to invest small amounts of financial resources in projects. Among the findings, Haar et al. point out that it is “critical to select only ventures in which the entrepreneur can be relied on” and to avoid “placing too much credence on highly articulate sales pitches”. In addition, “too much reliance on ventures in which the main emphasis is on product and proprietary protection” should be avoided (1988: p. 28).

Among the North American research, Wetzel’s (1987) focus is on the informal investors’ market, the other name given to business angels in the United States. Wetzel provides interesting insight, pointing out that “business angels are often the most likely sources of funds for technology-based inventors looking for development of funds”. He adds: “collectively angels appear to represent the largest pool of risk capital in the country, and they finance perhaps five times as many ventures as the public equity markets and professional venture capitalists combined” (Wetzel 1983: p. 32).

Wetzel addresses the topic of informal investments in two different ways. First, he considers the supply-side and defines these investors as those who provide equity to the market. They appear to be affluent individuals, net worth of \$1 million, with extensive experience in management and in finance (Wetzel 1987). On the demand-side, he implies that investors have two groups of target investments: start-up technology-based firms, and a second group consisting of established firms in which growth has exceeded

the capacity to generate cash flow (Wetzel 1987). Finally, Wetzel suggests that the entire informal venture market manages an estimated portfolio of around \$50 billion, “twice the capital managed by professional ventures investments” (Wetzel 1987: p. 299). In addition, Wetzel argues that the “number of ventures financed by informal investors appears to be at least ten times the number of ventures financed by professional venture capital firms” (Wetzel 1987: p. 312). In spite of this, there appears to be some constraint as to the degree of market efficiency, as “there is limited information about investors and investment opportunities” (Wetzel 1987: p. 312). Informal investors tend to invest in the start-up phase (Haar et al. 1988), which is to a degree compatible with the findings obtained by Wetzel. He refers to the fact that this is an inefficient market (1987), in accordance with studies performed by Haar (1988) and others. This concept of equity gap will be most relevant when analysing the United Kingdom angel market.

In a different published study, Freear and Wetzel (1990: p. 77) argued that a significant outcome of their research was the “conclusion that private individuals and venture capital funds play complementary rather than competing roles in financing of NTBFs [new technology-based firms]”. Further to this, they mentioned that there was evidence to suggest that these investors tend to remain related to the business for long periods of time, and that they were willing to finance endeavours at both the seed and start-up phase. This USA study involved 284 NTBFs located in New England from 1975 to 1986 (Freear and Wetzel 1990). From this study a new line of research was opened which explored the business angel characteristics and experiences. The previous article conceptualised the informal investor in a rudimentary way while the later article approached the subject in two ways. Firstly, the type of business was defined: technology, and secondly, reference was made to the stages at which business angels are inclined to invest at the seed and start-up phases.

Business angels are defined vaguely as high net-worth individuals. Haar and colleagues came to the same conclusion when they wrote that informal investors are “affluent individuals” (1990).

“Informal investors” or “angels” are expressions that are used interchangeably (Aram 1989: p. 333). It is significant that co-operation seems to exist between formal venture capitalists and informal business angels. Freear and Wetzel (1990) were in agreement with this opinion. However, additional research found that “venture capital firms are more likely to place stringent controls on an entrepreneurial venture than PIs”, and “venture capital firms require entrepreneurs to report to them on a more frequent basis and supply a higher amount of verbal feedback” (Ehrlich et al. 1994: p. 80).

Freear and Wetzel maintained that there are three types of business angel: those with experience investing in entrepreneurial ventures, those interested in potential investors with no venture investment history but who express a desire to enter the venture investment market, and finally, those that are interested potential investments who, under no circumstance, would consider investing in entrepreneurial ventures as part of their investment strategy (Freear et al. 1994: p. 122).

This finding seems to contradict the conclusions of Freear and his colleague’s article cited previously. However, the data was collected in only one American state. The authors now know more about wealthy investors, or business angels, as they are now known. This was achieved by comparing and contrasting the information obtained from the so-called interested group (business angels with investing experience together with potential investors who had no prior experience) with that of wealthy private individuals with no intention in investing. At the start of the research, business angels were considered to be just private individuals. In refining the initial research, however, several distinctions were introduced that contributed to the development of a more elaborate concept.

Sullivan and Miller remarked, “this capital market gap is often filled by private individuals who, operating outside of formal financial institutions, are willing to invest their own resources in new business (Lindsay, 1994; Wetzel, 1981, 1983, 1987)” (1996: p. 25). In effect, the informal venture capital market was segmented in three ways: economic, hedonistic and altruistic. This appears to imply that the market was not homogeneous. The economic segment is where rational decision-making individuals are

located. In the hedonistic category are individuals “motivated by what would bring most pleasure” (1996: p. 26). At the other end of the scale we find the altruistic classification functions as “a motivation for some economic behaviour” (1996: p. 26).

It was in 1988 that Haar et al. defined informal risk capital investors as business angels. Since then, the business angel concept has gained relevance among academics and the business community. In 1989, Aram noted that, “In recent years, researchers have ‘discovered’ the individual of financial means who invests a portion of his assets in early-stage risk ventures”, adding that “they [business angels] generally invest within 50 miles of their homes or offices” (Aram 1989: p. 333). Another relevant conclusion was that, “one’s chance of gaining start-up financing may be greatest from a person with direct experience as entrepreneur and manager in a related or similar business” (Aram 1989: p. 346), but in spite of that another researcher maintained that, the “angel market appears to be a very heterogeneous and localized market” (Prowse 1998: p. 785).

In 1999, looking retrospectively at the development of the business angel industry, Sohl identified five major trends. One was the globalization of the angel market, as new informal markets have evolved in countries such as Scandinavia, as well as in Japan and Australia. Another is connected correspondingly to the fact that a number of entrepreneurs have experienced successful business ventures and joined “the ranks of private investors” (Sohl 1999: p. 116). Another trend Sohl identified was the increasing desire to have one’s own company or business, the “continued strengthening of the relationship between the venture capital industry and private investor market” (Sohl 1999: p. 116), Finally, was the fact that “angel investing is a face-to-face phenomenon” (Sohl 1999: p. 116). While these trends may highlight the importance of the business angel network, as Steier and Greenwood point out, “understanding the process by which angel networks are developed and managed remains a significant but imperfectly understood aspect of the entrepreneurial process” (1999: p. 165). And they suggest that “stages of network evolution are characterised by different managerial challenges and actions” (1999: p. 165).

There is a reaffirmation that informal investors are affluent people. Prasad et al. used signalling theory to mathematically conclude that the willingness of business angels, recognised as “individuals that invest their own financial resources in an entrepreneur’s start-up business” (Prasad et al. 2000: p. 167), depends on the ratio of the entrepreneur’s wealth that is invested in the project,⁵³ as it signals “both the project’s value and the entrepreneur’s commitment to the project” (2000: p. 167).

Feeney and colleagues (1999) define private investors in Canada as “well educated, wealthy individuals who have typically had experience in start-up new business ventures”. Investors, they say, prefer to invest “close to home and to syndicate with other private investors” (Feeney et al. 1999: p. 122). This definition clearly encompasses almost all of the information provided by prior researchers. In a way, this definition resumes the concept of the business angel. Surprisingly, this research found that “private individuals are more active than institutional investors are [and] at earlier stages.” Furthermore, that “private investors do not appear to seek greater financial compensation for this additional risk” (1999: p. 142). One possible explanation for this incongruity rests on the fact that business angels tend to invest in industries with which they are familiar, therefore mitigating risk.

The growing importance of business angels prompted researchers to assess governmental support offered in the United States. In 2002, Lipper and Sommer published a report outlining the existing evidence regarding state funding to support and promote business angel dissemination. They recommended that caution should be exercised saying that tax incentive schemes may not have the desired outcomes in terms of promoting informal investment. Carpentier and Suret (2007) have presented a number of possible explanations for this unexpected outcome: agency costs, asymmetry and adverse selection.

⁵³ This ratio provides the business angel with an accessible tool to be used in the decision-making process. Prasad et al. quote Leland and Pyle: “Signalling theory, from the financial management literature argues, that these signals from the entrepreneur to the venture capitalists help the investor to more accurately evaluate the information they receive” (Prasad et al. 2000: p. 168 quoting Leland and Pyle 1997). This implies that the higher the ratio, the higher the willingness of the business angel to participate in the venture.

In the USA, while some states support legislation for business angel activities, others actively discourage this type of investor. They then risk losing these enterprises to the states that are more supportive. Business angels are mentioned as having provided “the largest amount of capital in more rounds and financed more than ten times the number of firms as their venture capital counterparts (Freear et al. 1994)” (Lipper and Sommer 2002: p. 357). This research also identified that “individual states are now recognising the significant impact angel investment organisations are making to economic development” (2002: p. 358). The relation between formal venture capitalists and business angels has been reported in several studies, one of the findings is that “the presence of angels among early-stage financiers of new technology-based firms should improve chances of eventual venture capital financing” (Madill, Haines Jr. and Riding 2005: p. 107).

In 2002, in the USA, a study stated that “On the supply side, women’s participation in the venture capital industry is extremely small” and added, “[on the demand side] for women entrepreneurs, it now becomes an even greater challenge to identify, approach and convince an investor of the value of their firm” (Brush et al. 2002: p. 317).

Wiltbank, on the other hand, found evidence that “seed stage investments were actually related to fewer negative exits” (2005: p. 355). The same researcher claims that, “due diligence and post investment participation also had some impact on angel investor outcome” (2005: p. 355). These conclusions somehow contradict the common perception that angel investors jump into deals and that investments that take place at the seed-phase are riskier. In addition, “when looking at only investors with exits, the extent of their due diligence was significantly related to an increase in investors’ negative and home run exits” (2005: p. 355).

After analysing the evolution of the business angel concept in North America, I will undertake the same exercise regarding Scandinavia, where extensive research has been done in Norway, Sweden and Finland.

5.5. Research on business angels in Scandinavia

In Scandinavia, there has been extensive research into the “ecosystem” of business angels, including studies by Landström (1993; 1998; 2000), Avdeitchikova (2008; 2009) and Polities (2008) among others.

In 1993, Landström produced a comparative study where he investigated the “reality” of Swedish business angels, against angels both in the United Kingdom and in the United States of America. This particular study set out to analyse the informal ventures reality by studying both supply and demand. Landström argued that informal investors in the UK tended to have a lower level of professionalism than US informal investors. He considered the American investor to have a medium level of professionalism and had a tendency to invest in high-risk ventures (1993: p. 538). Swedish informal investors lay somewhere in the middle and showed “a more divided picture” (1993: p. 538).

There are strong indications that Swedish informal investors are, on average, older than their American equals and invest a bigger proportion of their wealth than either of their counterparts in the United Kingdom or in the United States of America (Landström 1993). They also exercise more caution in selecting their investments. This is unsurprising as it is known that they invest a higher portion of their wealth on new ventures. While studying the returns on business angel investment in Finland, Lume and Mason concluded, that “a trade sale is a more common exit route” (1996: p. 4), and they added, “about 1 in 5 overall generated an IRR of over 20%” (1996: p. 6). This apparently skewed distribution of returns, where only one-third of surveyed investments experienced positive returns, is compatible with research produced in the United Kingdom (Mason and Harrison 2002a).

Later in 1998, Landström analysed the informal investor decision-making processes. He began his research by assuming that business angels are also somehow entrepreneurs, and named them co-entrepreneurs (1998: p. 330) adding, “[business angels have their

roots in the business process itself” (1998: p. 327). According to this research, business angels attribute great importance to the business potential and also to the connection between the business proposal and to the investors’ experience. Another relevant variable (among others) is the assessment of “the entrepreneur’s own ability to develop his/her firm” (Landström 1998: p. 321). In 2000, Politis and Landström suggested that informal investors are the climax of a three-phase career. The authors divided this career-learning into three different stages. The first is the corporate phase, followed by the entrepreneurial phase, before reaching the final stage: the business angel phase. It is implied by Politis and Landström that angel investment is often brought about by the termination of the entrepreneur’s career. The corporate phase “enabled the investor to gather valuable work experience” (2000: p. 94). The next entrepreneurial phase enables them to “use managerial and strategic competencies acquired in their corporate career (2000: p. 94); and finally, in the investor phase they “have extended the platform by making use of their managerial and entrepreneurial competencies in the firms in which they have invested” (2000: p. 96).

Research into the Norwegian angel reality produced some interesting differences in relation to the previous approach. A study, focused mainly on the demand side, has shown that Norwegian business angels who invested, have “lower income and net worth” than their Swedish and UK counterparts, but that they invested more in new ventures than their Swedish and UK counterparts, especially in the industry and technology-related sectors. In Norway, business angels only marginally invested in companies that had been established for more than 10 years. On the other hand, a new type of investor has been described as a “lead investor”, one who “plays the ‘hands on’ role and the remaining members of the syndicate play little or no role” (2000: p. 139). This would seem to imply that syndication is current practice. Almost 30 per cent of the projects involve some sort of business angel syndicate. Another relevant implication is that Norwegian investors tend to be less involved in the business in which they have invested. Lead investors could partially explain these findings, because they tend to play a “hands on role”, whereas the other members of the business angel syndicate play little, or no role at all (Reitan and Sorheim 2000: p. 139).

We know that the informal investors market is an opaque and fragmented market. Bearing this in mind, Sorheim and Landström (2001: pp. 351–70) extrapolating from the research on the Norwegian market in which a new figure had emerged, suggested that the lead investors presented a distinct typology of business angel for the Swedish market: they were lotto investors, traders, analytical investors and business angels (2001: p. 351). “Lotto investors” appear to be those investors with low investment activity and low competence in running new business, whereas “traders” it would seem are differentiated from the former because of their high investment activity. “Analytical” investors have low activity but fairly high competence and, finally, business angels experience high investment levels together with high competence levels. Sorheim and Landström argue that this could be important in the development of new public policies. They explain that this distinction between business angel types could have implications with regard to differentiated public policies. This division was explored in another work by Sorheim (2003) when he focused on pre-investment behaviour in which two intuitive alternatives were presented: regional investors and industry related investors, about which he concluded, “It is this regional track record that gives them a competitive advantage in the informal venture capital market” (Sorheim 2003: p. 337). Previously, the concept of the business angel was constructed considering both supply and demand. Sorheim attempts to segment the market by offering a new perspective: regional versus industry specialisation. In fact, according to Sorheim, industry specific investors “take care of the initial screening themselves to a large extent, whereas regional investors are generalists” (Sorheim 2003: p. 359).

In 2003, Saetre offered a new perspective in which, for the first time, entrepreneurs were asked to discuss the most important characteristics of informal investors. He noted that the distinction between business angels and entrepreneurs became “blurred particularly in those instances where the investor becomes involved in the company fairly early in the process” (2003: p. 90). Moreover the author proposes a new concept: relevant capital as “capital from private investors with strong ties to the specific industry of the new venture” (2003: p. 91).

Sorheim explores the fact that business angels are investors that could provide additional financial resources, depending on their experience. He argues, “The empirical findings show that an investor’s previous track record, to a great extent, determines how they can operate in the informal venture capital market” which he believes is especially true for entrepreneurs without previous investment experience (2003: p. 337).

Erikson believes that while business angel networks may “serve as such seed institutions” they tend to concentrate on the early phase of the investment. It is formal venture capitalists that are more likely to operate at a later stage. He argues, “This study has shown that VCs serve the later phases of the wealth creation” (2005: p. 552).

Sorheim, however, suggests that experienced business angels play an important role in facilitating further financing for new ventures. Introducing a note of caution resulting from his research, he states: “entrepreneurs should bear in mind that the previous track record of the business angel strongly affects if and how they can facilitate further finance (Sorheim 2005: p. 189).

Concluding his research, Mansson (2006) attempted to compare the reality of the Swedish market of 1992 to that of 2004. He points out that, “the Swedish business angel market has undergone changes during the previous decade” (2006: p. 297), and says that his results revealed that, “business angels showed increasing interest in high-tech industries and in investing at the early stages of company development” (2006: p. 299). In addition, he believes that “entrepreneurs themselves have become an important source of information when business angels are looking for new investment opportunities” (2006: p. 299). He concludes, “Business angels seem not only to have become more professional in locating new investment opportunities but also to have become more aware of the high risks inherent in informal investments” (2006: p. 299).

Moen et al. contrast traditional business-angel investment characteristics with a new category of informal investors in born global firms.⁵⁴ It emerged from this study that, the prevailing difference rests on “the origin of the deal, investment size and exit preferences” (2008: p. 536). One implication of this is “to establish varying forms of

⁵⁴ Moen et al (2008) see “born global firms” as ventures with a niche global-market focus from day one.

social forums where different categories of investors can meet in order to build beneficial friendships and trust” (2008: p. 546–7).

Avdeitchikova focused on trying to estimate the size of the Swedish market. She notes that informal venture capital is a “highly heterogeneous” market (2008: p. 77), which she estimates represents approximately one per cent of Swedish GDP, while acknowledging that the market is still evolving. In her research, Avdeitchikova identified four distinct informal investment roles: “capital-oriented, knowledge-oriented, classical business angel and micro-investor role” (2008: p. 78). However, as she pointed out, “a large percentage of investors had strong preferences for a particular investment role irrespective of whether or not they possessed the necessary resources to provide this type of contribution, or what kind of resources the company would benefit from the most” (2008: p. 78). Two tentative explanations for this were offered by Avdeitchikova: either it was seen as part of the nature of the investor or, as an alternative, that the possibility of getting involved in an entrepreneurial process would be “a reward in itself” (2008: p. 79). It would seem that neither explanation is entirely satisfactory and that further research is required to elucidate this unexpected outcome further. In spite of pinpointing these distinct roles, Avdeitchikova pointed out that nonetheless, “the distribution of informal investing activity is rather uneven, where metropolitan areas and university regions attract the vast majority of investment amount” (2009: p. 121). She also noted that, “regional investment is, in general, closely connected to the new business formation rate” (2009: p. 121). Finally, she suggests that, “there is a case of reallocation of capital from peripheral to economic core regions” (2009: p. 124), meaning that there is evidence of “a small but significant inflow of capital to the economic core regions” (2009: p. 124).

Departing from this macro level, Politis tried to identify the value-added roles performed by business angels. He managed to identify four: the first is in the role of sounding-board at the strategic level; the second in a supervisory and monitoring role; the third in resource/acquisitions and, finally, that of mentor. The sounding-board/strategic level roles have a connection to the fact that business angels have extensive business experience. The second role identifies the value-added roles of supervision and

monitoring, which is linked to the capacity to invest in sound accounting practices. The third relates to the capacity for “acquiring timely resources through their personal networks” (Polities 2008: p. 135), and finally, the role as mentor is according to Polities “about being a helpful, open and trustful partner with the aim to build up a stable and committed working relationship with the entrepreneurs” (2008: p. 136).

5.6. Key findings

Investigation into informal investors/business angels began in the United States in the 1980s and soon afterwards was picked up and continued in the United Kingdom. Now the phenomenon is being studied worldwide.

In spite of the opacity which exists in this industry, and which also to an extent prevents understanding of it, the current research has discovered that there are some differences as well as some similarities between the two markets. The terms informal investors/business angels are used interchangeably throughout this research, but it should be pointed out that that in terms of their personal profiles there are minor differences between the two, as the latter tend to be wealthy middle-aged males with business experience who seem willing to risk part of their wealth in new business ventures (mainly on the seed- and start-up phases), alone or in co-investment, with the expectation of financial gain.

In the United Kingdom and the United States it would seem that the visible aspects of the business angel industry have benefited from several decades of activity. However, in Portugal – where the industry is a more recent phenomenon – beginning in 1999, and after a sluggish period following the “dot com” crisis, regaining momentum after 2006.

In the United Kingdom it is clear that public policies have helped to expand the number of informal investors or business angels. In Portugal the process is only just beginning. The evidence from different investigations, including the current research, suggests that when business angels first emerged there was an extensive casualty rate within the

industry although there were some businesses that provided significant gains to investors.

Apart from the differences in volume i.e. the number of actors (business angels) in the various clubs (11 in Portugal, as illustrated in Table 1, p. 15) and 24 networks connected to British Business Angels Association (BBAA)) the industry has been growing in Portugal since 2006, just as it has in the United Kingdom. According to the latest report there are more than 5,500 business angels in the United Kingdom, whereas in Portugal, according to the most recent survey, the number of registered members in the different clubs or networks was estimated to not exceed 600.⁵⁵

From this literature a number of themes emerged which are detailed in Appendix A (p. 141). These themes were introduced into the semi-structured interviews held with both business angels and club leaders in Portugal and in the United Kingdom.

⁵⁵ www.bbaa.org.uk; www.fnaba.org; www.apba.pt [accessed 1 May 2012].

6. Business Angels: A Subjectivist Approach

The literature review on business angels reveals that its predominant ontology is objectivist; where “social entities exist in reality external to social actors” (Saunders et al. 2007: p. 108). The opposing argument – constructionism – makes use of “an ontological position (often also referred to as constructivism) which asserts that social phenomena and their meanings are continually being accomplished by social actors” (Bryman and Bell 2007: p. 23).

However, while informal investors or angels “do not generally resemble the average person, except that both have wide-ranging experience and behaviour” according to Gaston (1989: p. 15), they are nonetheless people who structure the world in a meaningful way, and this is something that is worthy of further research. This avenue of interpretative investigation has been explored by several researchers focusing on entrepreneurship. Interestingly, Anderson and Smith have analysed moral space in entrepreneurship (2007), and further research was conducted which analysed the scripts of failure in relation to entrepreneurs (Smith and McElwee 2010). Departing from this ontological position, the current research investigates the way in which business angels and informal investors in Portugal and in the United Kingdom construct their worlds in general, and in particular, how the networks in which they have been involved whether as managers, founders or as regular members, have developed.

Informal investors or business angels are constructors of narratives, and simultaneously, producers of a web of meanings. These narratives, supported by language and signs, are interconnected in a meaningful way. However, the structure of the signs is of crucial importance in sensemaking. These different meaningful linguistic structures are connected to knowledge, which itself is a shared and accepted narrative by those who have the power to prioritise meaning.⁵⁶

⁵⁶ Burr argued, “What we call knowledge then simply refers to the particular construction or version of a phenomenon that has received the stamp of truth in our society” (2007: p. 68).

In the following sections, concepts of identity, construction of “self” and organisation of the “out-there” will be further explored. These concepts are relevant to the current research, particularly in relation to the analyses of the responses given by informal investors in the semi-structured interviews. These interviews were carried out in order to assess how business angels structure their own identities and, simultaneously, how they make sense of their own “out-there” (including the development of networks).

6.1. “Self”: frame and construction

If reality is a socially constructed activity, it follows that each actor also constructs his or her own reality. (Berger and Luckman 1967)⁵⁷ Business angels are no exception, as each will construct his or her own self; a self which is constantly changing. Gabriel framed “self” to refer “to the uniqueness and separateness of each human being as a conscious, and sentient people” (2008: p. 261). Therefore, there is a lack of knowledge as to the ways in which each business angel is different from another. It is important to bear in mind that self-identity is defined as distinct from social identity. Watson argued that identity is the work of “the mutually constitutive process whereby people strive to shape a relatively coherent and distinctive notion of personal self-identity, and struggle to come to terms with and, within limits, to influence the various social identities which pertain to them in the various milieux in which they live their lives” (2008: p. 252). Burr argues similarly that “social constructionism paints a picture of the person as multiple, fragmented and incoherent. We have a multiplicity of different selves, each called forth or conjured by our immersion in discourse and in the process of social interaction” (2007: p. 141). This means, therefore, that it should be possible to identify the different selves that emerge from the semi-structured interviews, the narratives that were produced by the different interviewees from Portugal and the United Kingdom. It

⁵⁷ As Boyce citing Berger and Luckman (1967) points out: “They [Berger and Luckman] contended that the reality we collectively experience has, in fact, been constructed by our social interactions” (1996: p. 5).

should be borne in mind that there are overlapping concepts, as “self” does tend to get confused with “identity” (Gabriel 2008: p. 261).⁵⁸

Within this process of self-construction, “otherness” plays a major role: “self is based on the perceptions of difference, of being in some way different to all other selves, of being unique” (Jackson and Carter 2007: p. 187). Jackson and Carter talk about the “significant other” and “the symbolic importance we give to them” (2007: p. 187). This suggests that while business angels may appear to be a heterogeneous group of people, when considering their professional experiences, they are not. Some have been entrepreneurs at some stage in their professional lives, others were academics and some, surprisingly, came from the public sector. Others have a background in finance. Chia points out that, identity “is established in the very act of differentiation and detaching myself (i.e. the process of individuation) from my surroundings through material inscriptions and verbal utterances” (2000: p. 517). In essence, for the business angel “self” is fragmented, and even contradictory, in its uniqueness. It is constantly changing, being constructed and reconstructed in an effort to differentiate themselves from their surroundings and from their “significant others”.⁵⁹ This constructive and reconstructive process is also a meaningful sensemaking process.

6.2. The ephemeral nature of meaning and sensemaking

The process of creating meaning by business angels or informal investors is a complex one. Meaning, according to Jackson and Carter “is a characteristic of the understanding of the person/people who use the symbol” (2007: p. 21).

Weick argues that the sensemaking process has a number of characteristics: firstly it is grounded in identity construction: “once I know who I am then I know what is out-

⁵⁸ “Self” and identity are discussed in more detail in Chapter 4.1.

⁵⁹ Gabriel (2004: p. 206) quotes Giddens as follows: “The individual’s biography, if she is to maintain regular interactions with others in the day-to-day world, cannot be wholly fictive. It must continually integrate events which occur in the external world, and sort them into the ongoing ‘story’ about the self.” (Giddens 1991: p. 54).

there” (1995: p. 20). Additionally, this process is also retrospective in the sense that the explanation rests, at least partially, in the past as “the past has been reconstructed knowing the outcome, which means things never happened exactly that way they are remembered to have happened” (1995: p. 28). Sensemaking is also rooted in enactment, meaning that it is implied that “action is a precondition for sensemaking as, for example, when the action of saying makes it possible for people to then see what they think” (1995: p. 30). This process, according to Weick, is both social and ongoing as it is never “solitary because what a person does internally is contingent on others” (1995: p. 40). Moreover, sensemaking is ongoing⁶⁰ in the sense that it “... never starts. The reason it never starts is that pure duration never stops” (Weick 1995: p. 43).

To this, Czarniaswska adds “There is sensemaking, but also sensegiving and sensemaking.” (2008: p. 71). In addition, it might be said that meaning is extracted from cues in the sensemaking process, and that it therefore follows that, “we are more likely to see products than process” (Weick 1995: p. 49). Finally, sensemaking is driven by plausibility, rather than accuracy; plausibility takes precedence over accuracy. Weick argues, “If accuracy is nice but not necessary in sensemaking, then what is necessary? The answer is, something that preserves plausibility and coherence, something that is reasonable and memorable” (1995: p. 60).

Gabriel argues that sensemaking is the process by which, “confronted with novel and unusual events or experiences, we try to make sense of them by fitting them to different cognitive schemata, linking them to earlier experiences, or placing them in to plots” (Gabriel 2008: p. 263). In this sensemaking process, if applied to the narrative produced by business angels or informal investors, language holds a crucial role. It structures the “out-there”, including the development of the networks to which the angels belong or manage, and it also organises the fragmentary nature of self and identity.

⁶⁰ As Gabriel notes: “People are part of the environment; they act in it, and they create the very materials that in turn become the constraints and opportunities they face” (2004: p. 143).

6.3. Business angels: language users (creation and recreation of outside reality)

Language is the cement which helps to construct the “self” and the “out-there”, our relations with others, and through which we attribute meaning. Tietze et al. argued: “language and communication are essential to what makes us human” (2007: p. 8). Gabriel added “language is also seen as enabling us to contest particular views of the world and challenge particular power blocks” (2008: p. 157). Business angels interact with each other, with entrepreneurs and other stakeholders, using linguistic artefacts. In this sense, language has an element of plasticity, as it is evolving all the time. This helps to frame the social construction of reality (Berger and Luckman 1967).

From the point of view of semiology, the central aspect is that symbols “are the means by which we communicate and make sense of the world” (Jackson and Carter 2007: p. 15). Symbols and signs are also present in the narrative produced by business angels and these are structured in a meaningful way using bounding mechanisms. Adding meaning to this meaning “can develop consciously and/or unconsciously” (Boyce 1996: p. 7).

For Chia, discourse is “multitudinal and heterogeneous forms of material inscriptions or verbal utterances occurring in space–time, [and this] is what aggregatively produces a particular version of social reality to the exclusion of other possible worlds” (2000: p. 513). At this stage, analysing the discourses of business angels in order to understand the way they construct a specific reality is of particular importance because, by constructing the discourses in a certain way, a centrality in the discourse and simultaneously a periphery is created. In fact, in each discourse, there is an embedded boundary mechanism linguistically inserted into the narrative: a human construction, and one which contains an interior and an exterior. As Jackson and Carter note, “boundaries are defined in terms of the purposes of those who do the defining” (2007: p. 211).

Business angels have the capacity to create and re-create a centrality and a periphery.⁶¹ Why is that? Why are, as Tietze et al. point out, certain leaders "... capable of shaping and framing the prevailing discourses of an organisation in a way that people promotes particular attitudes and behaviours which people adopt willingly"? (2007: p. 148). This topic will be addressed in the following section.

6.4. Power and the prioritisation of meaning

Embedded in language is a power mechanism that relates to the way meaning is prioritised. This explains why "it is not possible to understand knowledge about anything unless the power base to which it is linked is also understood" (Jackson and Carter 2007: p. 107). Burr maintains the same line of reasoning: "If discourse regulates our knowledge of the world, our common understanding of things and events, and if these shared meanings inform our social practices then it becomes clear that there is an intimate relationship between discourse, knowledge and power" (Burr 2007: p. 67).

The previous statements link power to knowledge and ultimately to discourse. In the discourse of each business angel one can try to identify elements of power embedded in the narrative. Power implies "that the person with power can get people without it to do whatever they wish, irrespective of whether it contributes to the organisation (Jackson and Carter 2007: p. 98). Elements of power are certainly associated with business angels as they have the financial resources essential to the development of a new business venture as well as the relevant contacts and, very likely, a specialist knowledge base.

Contiguous with power is knowledge. Under the objectivist perspective it "provides the means to analyse and understand data/information, provides beliefs about the causality of events/actions, and provides the basis to guide meaningful action/thought" (Hislop

⁶¹ This dynamism and the uncertainty of the process is eloquently described by Watson : "Given the complexity of the world around us and its unpredictability, and given the limited mental ability of the human animal to gather and process information about the world, we can never really know what is going around us." (2003: p. 12).

2005, pp. 15–16). Jackson and Carter argue that “it is not just knowledge producers who define what may be regarded as acceptable knowledge, but also other significant and powerful groups in society” (2007: p. 84). Adopting this approach, knowledge is linked to the regime of truth. Using the same line of reasoning, Gabriel points out: “following the work of [Michel] Foucault, some theorists have come to view ‘truth’ as an attribute that does not describe the relation between knowledge and reality; instead, they view it as a result of certain social and political practices that privilege certain ideas over others” (2008: p. 153).

Under these circumstances, each informal investor’s narrative may have embedded elements that allow for the identification of power and knowledge. Narrative knowledge “includes myths, stories, anecdotes, and every type of recipe and narrative which helps people make sense of and deal with the situation they encounter” (Gabriel 2008: p. 152).

6.5. Ideology

Ideologies are “ideas systematically underpinned by logic” (Jackson and Carter 2007: p. 148). The importance of ideology is that it constructs a framework which helps to make sense of the world, therefore reducing uncertainty (but not in the search for truth).

Ideologies have a predictive element, which is also relevant. Business angels construct their reality through their use of language. Since language is not neutral as it expresses the preferences of the user, it is therefore ideological. By analysing the interviewee narratives it should be possible to understand the ideological preferences of the emitters. As Tietze et al. noted, “Central to Hodge and Kress’ analysis is the concept of ideology, which they define as a ‘level of social meaning with distinctive functions, orientations and content for a social class or group.’” (2007: p. 29).

Ideologies are ways to make sense of the world, through the cause and effect mechanism. Ideology helps to reduce uncertainty but does not try to discover the truth.

This can develop a notion of false security or false conscience, for each ideology, seen as a set of articulated ideas, has an explanatory power and, as mentioned earlier, a predictive power; it also has rationality. Rationality may be defined as an inter-subjective agreement, which offers a false conscience. Ideology, on the other hand, can be seen as a grand narrative which is understood as being “all encompassing bodies of ideas which purport to offer sweeping explanations of history, nature and every aspect of the Human condition” (Gabriel 2008: p. 122). It is Watson who suggests most forcefully that ideology has a predictive power, that it is “... a set of ideas which are located within a particular social group and which fulfil functions from that group. It helps defend, justify and further the interests of the group with which it is associated.” (Watson 2008: p. 322).

Burr contends: “A more useful way of thinking about ideology, for the social constructionist, is to see it as knowledge deployed in the service of power” (Burr 2007: p. 85). He then develops this idea: “ideology is present therefore in not only what we think, but what we think about, what we feel, how we behave and the pattern of our relationships” (Burr 2007: p. 85). Finally, according to Burr ideology can also be problematic: “the concepts, values and beliefs of the society into which we are born shape what we think about but also shape what we see as two sides of an argument or issue” (2007: p. 86).

6.6. Research gaps

Most research into business angels has employed objectivist ontology, and while there is extensive research on business angels published in the United States and the United Kingdom, there is no evidence of research into business angels in Portugal. This was confirmed by several of the leaders and founders of three of the four most important clubs in Portugal who said that they did not know of any previous enquiries into Portugal’s business angels, as emerges from Table 4 below.

	BUSINESS ANGELS' PROFILES AND INVESTMENTS
United Kingdom	Evidence of a body of research
Scandinavia	Evidence of a body of research
USA	Evidence of a body of research
Portugal	No Evidence of a body of research

Table 4: Research into the profiles and investments of business angels. Source: author's own.

The selected interviewees were seen as important for their “founding-father” status within the business angel industry in Portugal. They also managed clubs with the largest number of members whose members provided a steady flux of initiatives both at regional, national and international level.

In Document 4 (Gouveia 2009), the lack of previous investigations into Portuguese business angels' profiles and the characteristics of their investments were identified as a research gap. The findings of this first investigation were summarised earlier in this document. The conclusion is that there are opportunities for further research into this industry as it is developing rapidly both in terms of participants and in the deals ongoing and earmarked for future investment.

It also emerged that while there had been research on entrepreneurship (based on an interpretivist approach) in the United Kingdom (Downing 2005; Anderson and Smith 2007) there was no evidence of equivalent research in Portugal, as emerges from Table 5, below. It is thought to be pertinent to undertake research into Portuguese business angels using an interpretative approach as this emerged as another research gap while carrying out the literature review.

Using an interpretative approach, this document will address this particular research gap, asking how informal investors construct “self” and how business angel networks developed with these informal investors as actors in Portugal and also in the United Kingdom.

	Literature Review		Research Gap
	Subjectivist Ontology		
	Entrepreneurship	Informal Investors (Business Angels)	
United Kingdom	Evidence	No Evidence	
Portugal		No Evidence	

Table 5: The level of research evidenced in the Literature Review. Source: author's own.

6.7. Where does the research stand ontologically?

The current research observes the world as something that is constructed by linguistic exchanges between people. As Tietze et al. argued, "... words and the meaning we attach to them are the fabric of life" (2007: p. 9). The construction of reality is a laborious task performed by individuals who are constantly producing exchanges with each other. Burr suggests, "... social constructionism seems to lead to the claim that nothing exists except as it exists in discourse" (2007: p. 82).

At another level, there are a number of steps involved in social construction, as Berger and Luckman (1967) observed, social construction moves from externalization, towards internalization and, at last, objectivation. Language is positioned at the heart of all of this, objectified in the exchanges between individuals. If language is the framework that is used to structure our world, then language, as a web made up of signified and signifiers, is constantly changing and nurtured by linguistic exchanges between individuals. Burr proposed that "we think of language as a bag of labels which we can choose from in trying to describe our internal states such as thoughts and feelings" (2007: pp. 46–7). These processes of self-construction and of mapping the "out-there" are simultaneously part of the sensemaking process.

The concepts that emerged while performing the literature review, summarised in the previous section, were used not only in the preparation of the questionnaire sent out to the members of two Portuguese business clubs, but also employed to produce relevant

topics for the semi-structured interviews in Portugal and the United Kingdom. This investigation into the profiles of Portuguese business angels was the first investigation ever to have taken place.

Fisher argues that “interpretivist research can convert the pattern of associations found by positivist work into a quasi-casual connection” (2004: p. 50). In the current research, in order to form the semi-structured interviews, a number of themes and topics were extracted from previous research carried out under objectivist ontology (Appendix A: p. 141).

Following on from the literature review, and having developed the rationale of the research questions, the ontological pillars were constructed. These could have been built upon the principles of interpretivism or, alternatively, positivism (Jankowicz 2005). Easterby et al. see this dichotomy in terms of “traditions” proposing that “The two traditions are positivism and social constructivism” (2006: p. 28). It was decided to use the ontological perspective of interpretivism for the current research, as clearly, one constructs one’s own interpretation of reality. This, for the objectives of the current research, seemed like a plausible path to pursue. What this means is that reality itself is constructed by the subject, based on an interface with other subjects or individuals. Within this environment, action is a crucial element, as it allows for the discovery of the way(s) in which we see ourselves and, as a consequence, what is “out-there”. Jankowicz enumerated some of the characteristics of constructivism as being “a) to legitimise the value and weight of individual belief and conviction; b) avoid any search for *truth* and focus instead on a socially agreed *understanding*; c) facilitate the constant, conscientious and careful monitoring of personal, social and situational factors” (2005: p. 116).

6.8. Relevant themes

Within this subjectivist ontological stance there are several key aspects: for example, the notion of narrative, which is important when viewed as a particular type of text and

which, “Unlike other texts ... involve temporal *chains* of interrelated events or actions, undertaken by characters” (Gabriel 2008: p. 194). Similarly, Boje argues that, “Narratives shape our past events into experience using coherences to achieve believability” (2008: p. 4); and for Gabriel, action is seen as another relevant and related concept, representing “what people do” (2008: p. 2).

Language and linguistic structure within narratives is considered both in relation to the answers produced by the different actors (business angels) and to the interview questions. The answers incorporated references to certain “meaningful” concepts embedded in the questions, others answered indirectly. Whether or not the interviewees deliberately omitted to answer the questions is considered later.

The fact that there is a centrality in the narratives generated by the interview questions means that there is also a periphery to the discourse. One cannot define a concept without referring to its opposite; one cannot define profit without considering loss and cannot refer specifically to risk without referring to risk-free. Therefore, the important factors in this analysis are both the hidden facts and the factors that are revealed. Each sign has its own signifier and signified. The connections between these signs are metaphorically expressed as forming a web of meaning which is simultaneously fragile and always changing. And each change affects not only the part of the web in which it is directly situated but the web as a whole.

Self, identity, and otherness are seen as other pivotal dimensions to be investigated: Weick reasoned that the “self”, and simultaneously, self-construction define an “in-here” before defining an “out-there”. “Self”, as already intimated, is seen by Jackson and Carter “as being unique, different to all other selves. It is also viewed as being fragmented, inconsistent, incoherent, and distributed” (2007: p. 182). The ideas of self-creation and the portfolio of “self” one works hard to create, both relate to this concept.

According to Gabriel, identity refers to a person’s comprehension of him, or herself, as a discrete entity (2008: p. 136). Watson, on the other hand, distinguishes between “self-identity” and “social-identities”, the former of which he defines as “the individuals’

own notion of who and what they are” (2008: p. 252), and the latter, as “cultural, discursive, or institutional notions of who or what any individual might be” (2008: p. 252). Gabriel warns that caution should be exercised: “There is a considerable overlap between self and identity which sometimes combines to create the term ‘self-identity’ as against ‘social identity’” (2008: p. 261).

The “out-there” and “self” construct identity aside from the narratives of the “out-there”, linked to the construction of “self”. As Weick argued, “Depending on who I am, my definition of what is ‘out-there’ will also change. Whenever I define self I define ‘it,’ but also to define it is also to define self” (1995: p. 20).

Knowledge, power, ideology and rationality as the creation of knowledge is significant and “requires some inter-subjective agreement amongst ‘experts’ at whatever level” (Jackson and Carter 2007: p. 299). Power, it should be noted, is associated with those who have the capacity “to prioritise meaning” (Jackson and Carter 2007: p. 299). Gabriel provides interesting insight into these dimensions, positing, “Power/knowledge is the indissoluble entity of regimes of truth and regimes of control and has been very helpful in raising the profiles of groups that have been disenfranchised, silenced, or ‘othered’ in invisible ways, often adopting the very views of themselves which perpetuate their oppression” (2008: p. 232). For Jackson and Carter, ideology is seen as a way of making sense of the world (2007: p. 151).

Following on from the literature review and from the research in Portugal, an outline of the ontological perspective emerged which this research will follow. Subjectivist ontology as a language and sensemaking process has a central role in framing “self” and the corresponding “out-there” (Bryman and Bell 2007). This approach will underpin the conceptual framework for this document.

7. The Research Questions

The research questions “represent the facets of an empirical domain that the researcher most wants to explore” (Miles and Huberman 1994: p. 23). The questions might follow directly from the development of the conceptual framework, as they do in this document, as follows:

1. How do business angels construct their “self”?
2. How do business angels map their “out-there”?
3. What kind of bounding mechanism emerges (if any) to give structure to the construction of “self” and guide the mapping of the “out-there”?

7.1. Methodology and methods

The nine interviews were conducted in Portugal and in the United Kingdom. These interviews were instructive towards understanding how informal investors construct both their personal and investor/business angel identities. It is important to mention that being a business angel is not always or often a full-time activity. Informal investors tend to have other occupations in the business sector or in academia or, even, in both. This interpretivist stance to the world of investment and finance is a new approach when studying Portuguese informal investors (Bryman and Bell 2007: p. 17). The existing research about the business angel reality often is somewhat objectivistic in nature (Mason and Harrison 2010; Mason and Harrison 2011).

Methodology is “the theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted” (Saunders et al. 2006: p. 602). This document will follow a social constructivist approach, which as Burr asserts is “any approach which had at its foundation one or more of the following key assumptions” (Burr 2007: p. 2). Among Burr’s assumptions (which take a constructivist

approach) are the critical stance towards all that which is taken for granted; historical and cultural specificity; that knowledge is sustained by social processes and, finally, that knowledge and social action go together (2007: pp. 2–5).

The constructivist methodology understands reality as a social process. This means that people and their interactions frame the existing reality. Saunders et al. argue from the subjectivist viewpoint that social phenomena are created from the perceptions and consequent actions of social actors. Later they propose that the social constructionist views reality as being a social construct (2007: p. 108). A further step in this interpretation is that different cultures construct different realities. Hatch and Cunliffe argue that, “according to social constructionists, the members of a culture socially construct their realities by narrating” (2006: p. 198). In the current research, business angels were interviewed in order to understand how they construct their own reality, a reality virtually non-existent, in Portugal, until 1999. Berger and Luckman, in their seminal book *The Social Construction of Reality* argued, according to Burr, that “human beings together create and then sustain all social phenomena through social practices. They, (that is Berger and Luckman) see three fundamental processes as responsible for this: externalisation, objectivation and internalisation” (Burr 2007: p. 13).

7.2. Generalisability, reliability, and credibility of an interpretivist approach

The subjectivist approach has limitations, as it focuses on the interpretation of the subject. An interpretative approach is based on the social-construction process, which is social and ongoing (Berger and Luckman 1967; Weick 1995). The current document, based on subjectivist ontology, should therefore be assessed for quality against several themes and topics. The mapping process is an ever-changing chain of events, and under this assumption it should mean that the process is an important obstacle to generalisation. Can the findings from these interviews be subject to a generalisation mechanism? Clearly there are risks involved in taking this ontological perspective. Each individual produces an account that is relevant to the time. Using this ontology, it is not expected that the same individual, if asked the same question at a different time, on

another occasion, would respond in the same way. Miles and Huberman argued that this was the stage at which the risk of generalisation needed to be quantified, whether “the conclusions depend ‘on the subjects and conditions of the inquiry’ rather than on the inquiry” (Miles and Huberman 1994: p. 278 quoting Lincoln and Guba 1981).

Secondly, objectivity or confirmability must be considered. Miles and Huberman warn that there should be “relative neutrality and reasonable freedom from unacknowledged researcher biases” (1994: p. 278). In the current research, the research questions emerged from the literature review (the themes that emerged from the literature review are summarised in Appendix A: p. 141). However, from a naturalist perspective, objectivity in research is debatable as “enquiries are the ‘object’ of the enquiry and interact to influence one another; knower and known are inseparable” (Lincoln and Guba 1985: p. 37). These same authors argue that under a naturalist approach, “... the major technique for establishing confirmability is ... the confirmability audit. Two other techniques (triangulation and the keeping of a reflexive journal are relevant)” (1994: p. 318–9).

Yet another level of the argument relates to reliability, dependability and auditability, which depends upon “whether the process of the study is consistent, reasonably stable over time and across researchers and methods” (Miles and Huberman 1994: p. 278). In the current research, where and how the data was collected is transparent, and it is also clear that the ethical issues were addressed.⁶² In addition, the research questions are clearly detailed and backed up by an extensive literature review. A conflicting viewpoint can be taken from a naturalist perspective, which suggests that “Reliability is threatened by any careless act in the measurement or assessment process, by instrumental decay, by assessments that are insufficiently long, (or intense), by ambiguities of various sorts, and a host of other factors” (Guba and Lincoln 1994: p. 292). In the current research, the methods used and the ontological approach taken are described in detail. The themes and topics that were used in the interviews (carried out in the United Kingdom and in Portugal) were consistent, drawn from the themes and

⁶² The ethical issues associated with the current research are analysed in detail in Chapter 11.

topics that emerged from the literature review and also from the questionnaire conducted in Portugal in a known sequence.

Reliability can also be threatened by the many facts and figures that emerge from the interviewees' narratives which are then the subject of scrutiny by the interviewer. The findings can also suffer from the influence of a person other than a particular interviewee involved in this study. The methods used to analyse the data in the current research were consistent across the range of interviews and since these aspects have been preserved, reliability can be verified. Another level of concern linked to the question of reliability is dependability (Miles and Huberman 1994: p. 278), which is associated with the fact that researchers should ensure "complete records are kept of all phases of the research" (Bryman and Bell 2007: p. 414). As Lincoln and Guba advise "a single audit, properly managed, can be used to determine dependability and confirmability simultaneously" (1985: p. 318).

A qualitative researcher must be aware that the credibility of his research relies on the researcher "[carrying] out the research according the canons of good practice" (Bryman and Bell 2007: p. 411). Furthermore the researcher should be aware that the research is enhanced by "activities that make it more likely that credible findings and interpretations will be produced" (Lincoln and Guba 1985: p. 301). Qualitative research has to do with the depth of study. Bryman and Bell stress that: "qualitative studies tend to be oriented to the contextual uniqueness and significances of the social aspect of the social world being studied" (2007: p. 411). Unlike conventional or qualitative research "the naturalist can only set out working hypotheses together with a description of the time and context in which they were found to hold" (Lincoln and Guba 1985: p. 316). Credibility, such as emerges from the previous discussions, seeks answers to the following questions: "Do the findings of the study make sense? Are they credible to the people we study and our readers?" (Miles and Huberman 1994: p. 278).

In the current research, the data provided by the transcripts was analysed using similar criteria to those discussed above. Several iterations were produced and different methods of triangulation were used. In assessing whether the research was credible, the

same question that was asked by Miles and Huberman: “do the findings of the study make sense?” (1994: p. 278) was asked by the researcher. For the naturalistic observer, activities are sought which give credibility to the process among which are prolonged engagement, persistent observation and triangulation. This has been achieved in the current research: observation of business angel activity has been ongoing since 2006. An enquiry questionnaire was produced and involvement was sought from two of the four main investor clubs in Portugal. Moreover, several seminars have been attended and a number of the major players and founders of angels’ clubs have been interviewed. This has allowed the researcher to undertake a form of triangulation (lateral triangulation), and in contrast, contact with business angels without executive responsibilities in networks has allowed the use of vertical triangulation.

According to Bryman and Bell (2007: p. 414) to establish confirmability “the researcher can be shown to have acted in good faith”. For Lincoln and Guba, the most important technique for establishing confirmability is “the confirmability audit” (1985: p. 318), which they suggest involves a confirmability trail and a reflexive journal in order that the sequence of the research is known and may be audited. The data collection methods used in the current research is known and the findings associated with the research questions are stated in a following section.

Finally, Miles and Huberman posit the notion of transferability, that is, “whether the conclusions of a study have any larger import” (1994: p. 279). The naturalist enquirer will be concerned about promoting a tick description of what had been done. Lincoln and Guba point out, “the naturalist cannot specify the external validity of an inquiry; he or she can provide only the tick description necessary to enable someone interested in making a transfer to reach a conclusion about whether transfer can be contemplated as a possibility” (1985: p. 316).

7.3. Data collection

The qualitative data was collected using semi-structured interviews. In total nine interviews were conducted. Five of the interviews took place in Portugal and the other four were conducted in the United Kingdom. As Miles and Huberman point out, “Qualitative data, usually in the form of words rather than numbers, have been the staple of some fields in the social sciences” (1994: p. 1). Table 6 (below) distinguishes those that took place in Portugal from those that were carried out in the United Kingdom.

Interview	Country
A	United Kingdom
B	United Kingdom
C	United Kingdom
D	United Kingdom
E	Portugal
F	Portugal
G	Portugal
H	Portugal
J	Portugal

*Table 6: Geographic distribution of the semi-structured interviews.
Source: author's own.*

The five interviews that took place in Portugal involved leaders (the three “founding fathers”) of three of the business angel clubs. It was apparent that they had a deep understanding of the development of the angel market in Portugal, as illustrated in Table 2 (p. 17). The remaining interviewees were business angels.

The interviews that took place in the United Kingdom after laborious negotiations, involved both business angels and leaders of networks, as shown in Table 6 above. In

interpretative ontology-based research the number of interviewees, although relevant, is not as important as the diversity of the interviewees, which were from two geographic regions and in terms of “personality” included instigators/leaders/and more generally business angels.

The interview sample, therefore, is balanced in the sense that there were a similar number of interviews in both countries and also in that the proportion in each sub-sample of club leaders was similar in both locations.

All nine semi-structured interviews were recorded, a procedure that was accepted in advance by all interviewees. The transcripts were later analysed. According to Silverman (2010) transcripts have three advantages: first “they are a public record, available to the scientific community,” second, “they can be replayed, transcriptions can be improved,” and third, after the transcripts have been completed, “you can, if you want to, inspect sequences of utterances without being limited to the extracts chosen by the first researcher” (2010: p. 240). The interviews were replayed a number of times, and in some cases, the transcripts were adjusted. Again, these iterations were important to the process of making side notes and eventually correcting existing notes and/or updating them.

These analyses involved a coding process. Miles and Huberman explain that “codes are tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study” (1994: p. 56). In the present research, after the first coding level, several repetitions occurred which implied adjustments in the previous coding. This exercise was carried out either by changing the inserted codes and/or by inserting side notes or correcting the existing note. A second level of coding was then produced and the results were placed in a visual context. In this regard, as Silverman argues, “Visual data comprise a very broad category which can encompass anything from videos to photographs to naturally occurring observational data” (2010: p. 243).

Semi-structured interviews, although introducing themes that Bryman and Bell suggest comprise “a list of questions or fairly specific topics to be covered” (2007: p. 474), in

the flow of the conversation, did give the interviewees a degree of freedom to construct or organise his/her own account of both future and past events as well as an opportunity to construct a “self” accordingly. In addition, as business angels typically avoid media coverage, it was thought that the most efficient way to collect data was through carrying out one-to-one interviews.

The findings of the nine interviews were represented visually and changed or were subject to several adjustments throughout the process in order to become more reliable. In order to achieve this goal, several iterations took place. The results of the first iteration of the coding process were plotted on nine separate sheets of A3 paper. As new iterations took place, the previous plot was revisited and, when necessary, adjusted. This was done several times and involved the transcripts of all interviews.

While this process involved the selection of narrative fragments, which contributed to understanding the way the different interviewees constructed their identities, conversely, parts of the narrative were extracted where the discourse encapsulated the way actors mapped their “out-there”. Finally, every effort was made to identify the bounding mechanisms that existed in the different narratives of all nine interviewees. The first three sections of the following chapter will explore these three distinct aspects: construction of “self” as it applies to the business angel, the mapping process involved in their “out-there” and the associated bounding mechanism. The final part of the Chapter 8 will discuss the major findings associated with this analysis.

8. Interpreting the findings

After analysing the transcripts of all the interviews that took place in the United Kingdom and in Portugal, it is now time to address the three research questions (detailed in Chapter 7, p. 75) in the light of the findings. The different interviews will be identified using nine consecutive letters as detailed in Table 6 (p. 86).⁶³

8.1. How do business angels construct themselves?

In order to answer the different research questions an analysis of the transcripts from each interviewee was performed. In the narratives, as Tietze et al. note “we can see that there is no one accepted definition of a story or narratives. Most pieces of writing use a wider definition of stories and include other forms of text such as narratives, dialogues and exchanges within their definition” (2007: p. 56). Each individual produces not only a narrative but also an associated “self” or identity. Identity is defined as “in what ways any given individual is like other people and in which ways they differ from others” (Watson 2008: p. 252).

Interviewee A, a business angel and also a representative for a group of business angels, stated: “*For clarity, I represent a group of business angels who are investors of funds.*”

This initial statement has several aspects embedded: the interviewee clearly sees himself as some sort of a *primus inter pares* (the first among equals) business angel. There is also a co-production of meaning with the interviewer and also a representation effect in his statement. He identifies himself as a business angel, which is a formal social identity role (Watson 2008: p. 254). In this statement there is also a Folcauldian element.

Watson wrote that within the Folcauldian perspective “discourse and power are deeply

⁶³ The letter “I” is omitted from the sequence and J is used instead for clarity.

implicated in each other” (Watson 2008: p. 254), in the sense that there is a discourse that creates the subject, in this context, the entrepreneur.

“I think it was a great opportunity to invest in emerging business. Let’s go and see how it works.”

This statement again contains some sort of sensemaking process (Weick 1995); an on-going process as well as a social one. There is also an element of struggle – in the Bakhtin/Volosinov sense – a concept about which Maybin commented: “social conflict is evident both in the way language is used to put a particular interpretation on experience, and at the level of the sign itself in the struggle over the meaning and evaluative accent of particular words or phrases” (Wetherell et al. 2007: p. 65).

An element of enactment (Weick 1995) has also emerged: *“let’s go and see how it works.”* The construction starts with an identification of two formal social roles: business angel/informal investor and a representative of a group of investors. The binding process comes through the sensemaking process. There is a social element (Weick 1995) involved in the plot as the group, although informal, continue to explore new investment alternatives together, in what seems to be a new reality to them: *“see how it works”*.

At this stage the representation process goes even further in a more explicit way. The interviewer acts as an informal investor, with the added power of also representing the group. Associated with this is a multi-voice process. The interviewee has more than one voice: he is leader of a network and also a business angel.

As Tietze et al. noted, “... using the pronoun ‘I’ can have only one meaning. The person making these statements is attributing the thought, belief or actions to themselves and taking responsibility for this” (2007: p. 139). Interviewee A used the pronoun “I” several times, stating:

“I build a personal network through banks, accountants, lawyers, other people, every time people get to know what you do.”

The business angel interviewee started by defining himself by his formal role. There were two: a business angel or informal investor and the director of a network. Repetition is present in this narrative as a means of refining the story and gaining momentum into further developments. The interviewee uses metaphors which, as Gabriel pointed out, “have long been viewed as powerful instruments for transferring meaning from one entity to another” (2008: p. 181).

For example, the fragment from the narrative – “... *full-moon get together* ...” – signifies the scheduled network meetings of the group. Personal attributes and opinions are present in this narrative, which related to investment experiences. As Tietze et al. point out, personal narratives “convey certain attitudes and values and are an effective and persuasive way of communicating ways about how people in an organization can (and should) behave” (2007: p. 144).

In addition, interviewee A used metaphors within a story-building process and definitions of his social roles as resources to support his self-construction. First there is the positioning process inside the group, followed by an element of mediation toward the outside world: bankers and lawyers. This mediation is based on enactment, using the club as an intermediary linguistic device. Therefore his construction of “self” is based on role-definition, which means positioning, followed by an enactment element towards the outside world. The mediation process involves the club, seen in the positioning process inside the group, which is then followed by legitimisation of the club, “*let’s go and see how it works*”. The mediation process towards the outside world can then be considered.

Interviewee B begins by mentioning his previous formal social role as a banker and, unlike the previous actor, he starts by drawing a chronological approach until finally mentioning his present role or roles. His narrative – a refined and crafted construction of his identity – reveals that he has more than one role. This interviewee decided to pursue something different professionally, departing from his previous role to reach his current position. He said:

“I retired from [undisclosed name] bank” and “I set up a business consultancy.”

He sees himself placed in a context where a lack of financing resources seems to exist in an undisclosed English region. He then tries to tackle the problem by working both on the demand side of funds as well as on the supply side of funds:

“[Undisclosed entity] has carried [out] some research on business angels. [Undisclosed English region] has almost the lowest number of business angels in the country and the lowest number of activities that put money [long pause] being invested in businesses.”

He frames reality using objectivist ontology—which is normal in finance—by developing a network that tries to help entrepreneurs seeking finance, providing specific courses. The story involves a legitimisation process that, as Boyce points out, is a means “by which people construct explanations and justifications for the fundamental elements of their collective, institutionalized tradition” (1996: p. 5). The interviewee added:

“Over about a year we formed [undisclosed] that is now forty organisations in [undisclosed English region].

This interviewee had worked both on the demand side—entrepreneurs seeking finance—as well as on the supply side, business angels.

“About three to four years ago, we were asked to run a trial programme called [undisclosed] and that was from someone down in the South who had the idea of running a training course for people who would like to be business angels.”

There is a repetitive element in the narrative, to reinforce the story. Indeed as Tietze et al. note, “Repetition and rhythm along with alliteration, tend to strengthen the force of what is being said or written.” (2007: p. 146) Later in the narrative, the interviewee mentions his experience as a business angel:

“I think so far, I mean actually, I have no exits. I have had one bail out – money lost. I have one in particular that’s doing quite well. It may work. That’s a business which I coached and brought forward when nobody would fund it and that four good lads from the previous bid company who set up their own business, but they didn’t know how to

run a business. They were very good but no funder would fund them. So then I put a chairman in it, put a finance director in, got them some structure and I put them into competition and they own their investment and they were then three times oversubscribed because we were there as well. And four years on now, they are turning over 7.5 million pounds, employing over 30 people.”

This interviewee B defines himself by his former social role (Watson 2008) before getting to the present stage, where he has had a number of roles simultaneously, in a process of positioning towards the “far” outside. His identity construct is based on a career development. He provided a chronological account based on cause and effect loops. This process involved repetition and enactment as well as a social element, meaning extensive social interactions, both with entrepreneurs and business angels (Weick 1995). However, the centrality of the discourse is not in business angel activities. He reveals a passion for organising, in so far as the linguistics contextualization is rather detailed, using numbers within the justification mechanism of persistence and control. Again, the club or networks he is involved with are mediating structures involving organisations or networks.

Interviewee C is both an academic and a business angel. He works for a prestigious British university. He started by modelling the relevant “out-there” on two distinct sides: traditional high-profit companies and high-growth companies. This framing is not irrelevant as the interviewee wants to focus his narrative construction on high-growth companies. He elaborated this way:

“So you plant all of the property back into the company. So you never take profit out. There is never any profit out. So, no profit. It might be a chain of shops: High value because the investment is what fuels the growth. Sale in five years expecting, like, doubling every year.”

The aim was to develop a business model based on growth. Models are important as “we *only* understand the world through our models of it. But, to us, that is our reality: we treat our models *as if* they are the real world” (Jackson and Carter 2007: p. 223).

While elaborating on his own narrative, interviewee C added: *“I am an academic.”* And he then added *“My consultancies are going well. I sold the company [so] I have money to invest.”*

By saying this, interviewee C positions himself through several articulated selves: business angel, academic and consultant, while modelling the outside world, which is the central concept in his identity creation. The model that is presented is rather simple and intuitive: high growth companies versus stable, mature, family companies. In this account, the centrality is on a cause and effect reporting of this career and the modelling of the outside world. The club to which he belongs is not central to the discourse, although he argues, *“I am a very early investor”*.

Interviewee D, interestingly, mentions that he has been a business angel, director of a network of business angels and a consultant. He starts by framing his social roles:

“So, I have two sides: I have one side where I personally do small investments and the other is where I run a business that supports hundreds of business angels. We are brokers, so I may have different answers for every question.”

It emerges from this interview-fragment that interviewee D first of all states his basic self-image: that is he is a small business angel as well as someone who leads an organisation supporting business-angel activities. He then goes even further, adding another level as a consultant:

“In the first instance, I’m not sure I did decide and I don’t think it was a positive decision. It was something that just happened. I was working as a consultant with a small business that needed more support than they were able to pay for. I became a sweet equity business angel, [for the] first time.”

The narrative produced by this interviewee evolves towards a chronological account on at least three different levels: as a consultant, as an angel investor and as a leader of a club. As Watson argued, there are “two aspects of human identity— self-identity and social identities—being brought together by an activity that every human being engages

with, identity work” (2008: p. 251). The account seems to be justificatory construction, heavily based on the relation between cause/effect. From this construction another relevant element emerges: enactment, which is present throughout the narrative. In the three accounts produced above, there is always an enactment element present (Weick 1995). Interviewee D’s narrative is constructed from all of his roles; as a business angel, a consultant and as the one “*running an organization*”—which creates a powerful metaphor suggestive of the solid angel-entrepreneur constructed out of effort, will and commitment.

The construction of this discourse from interviewee D, while having some similarities with the first two interviewees, also has some significant differences. Similarities arise from social roles (Watson 2008) that are present: business angel, or leader of an informal investors’ club, and the construction of the narratives using a chronological retrospective axis (Weick 1995). The differences are on the perimeter of the reported social roles and related to the central concept that pervades all the discourse(s): the idea that he was an unlikely and unexpected angel leader who happens to like the job.

Interviewee E is a business angel and a former entrepreneur (he managed to sell an equity position in a successful high-tech company) as well as being the leader of a club. He lives in Portugal, where the interview took place, and the account started:

“The club [name undisclosed] was formed in two ways: the foundation of [name undisclosed] brought a number of projects that needed finance and on the other hand there were a number of people willing to invest in new projects. Therefore, by putting together the two things, projects and people [investors] willing to share risk, the club was born.”

Again, there is a personal story involved in this retrospective account (Weick 1995). The interviewee positions himself between demand and supply. When asked about the profiles for the business angels of the club to which he belongs, he replied:

“They are people who owned companies. They were entrepreneurs who sold their companies and therefore now have the financial resources to invest. I am going to give

you two or three examples. My own experience: as you know I was at the core of [a well-known Portuguese company] and sold my stake in it. The other was the man [name undisclosed] who started a company [name undisclosed] and later sold it to a [name undisclosed]. The other was [name undisclosed] who built a company and sold it to a multinational [name undisclosed]. They were people who sold their companies and had the resources to invest.”

The interviewee again mentioned his social roles: business angel, leader, and former entrepreneur, and this persona remained fixed until the end of the interview. He adopted a linear chronological approach as did interviewees B and D. Interviewee C only partially did this. However, unlike previous interviewees, business angel interviewee D did not mention his investment experience although he was willing to mention his experience as a former entrepreneur.

Again, both the definition of D's social roles at the beginning and the chronological approach he followed were plausible accounts (Weick 1995). In what is a characteristic of the Portuguese interviews, there is a focus on the organisation of the network and on enactment. These two characteristics are seen clearly in some of the following narratives, especially from F and G.

This interviewee positions himself between demand and supply, while mentioning that formerly he was an entrepreneur. From this statement, while mentioning the relevance of the screening process in which the different business plans are assessed before being presented to an audience of informal investors, several characteristics emerge. This is a social process that involves continuous enactment iterations in a context of a retrospective account (Weick 1995). This piece of narrative is related to efficiency. Jackson and Carter argue, “... what processes are thought to be relevant, and so structurally related, to efficiency is very much a question of who is making the judgement” (2007: p. 241).

Interviewee F is another Portuguese business angel who has responsibilities at a different informal investor club. He is a part-time business angel and the founder of this network a few years ago. On a personal note, he said:

“I am a [profession undisclosed]. I started to work in the 1980s. At that time I had a feel for entrepreneurship. I completed a course [area undisclosed] and afterwards I developed software to be used in [business undisclosed]. With that software it would be possible to start a company. I used to be a lecturer at that time and, in my spare time I used to go to the banks searching for a loan to finance my start-up project. At that time I was a little over twenty years old. The systematic response from the banks was if I was interested in a mortgage to buy a house, then that would be possible. However, I never really got an answer about the loans for my start-up project.”

Embedded in this narrative is the element of power, seen as “the ability to get someone to do something that they do not particularly want to do” (Jackson and Carter 2008: p. 94). Additionally there was an element of frustration for not having been able to secure finance. In this case the banks, acting like venture capital companies, did not respond as they were supposed to, according to the interviewee. This traumatic experience was embedded in the interviewees’ construction of “self”, which as he noted:

“In my twenties I was unable to start a company ... and I would like now to help young people to become entrepreneurs ... with other types of stimuli that, at that time, I was unable to get.”

The interesting thing about this is that while not using the pronoun ‘I’ when talking about the club, he uses ‘I’ extensively while sharing part of his own personal stories. This story disseminated a number of signals compatible with his support for entrepreneurship, while criticising the alleged inefficiencies of traditional Portuguese banking in analysing start-up projects.

This account, by interviewee F, has several references to the social role of the interviewee. Present is his dissatisfaction with the banks’ ability to prioritise meaning in a context of a power struggle (Jackson and Carter: 2007). He positions himself as a

business angel, although not speaking about his current investments, and leader of a club that was formed to support entrepreneurship. This was something that others failed to secure him with when he was young.

Interviewee G is a well-known Portuguese informal investor who has gained extensive media coverage. He is a middle-aged individual who starts by constructing his most important social role using a chronological axis:

“The story of the business angels starts at the end of 1999, well, in January 2000. However, I made some contacts in 1999 that resulted in the formation of the first business angel club in Portugal.”

As Weick argues, “perhaps the most distinguishing characteristic of the present conceptualisation of sensemaking is the focus on retrospect” (1995: p. 24); during this process several circumstances are embedded in the narrative that allows for the framing of the “self”. The facts are both positive and negative. Later he details his own investments:

“I invested in a company in 2003 and I am unable to see how I am going to exit from this project.”

The comment above presents a negative circumstance that is a unique among the business angels’ narratives, detailing a difficulty faced by a Portuguese business angel, who like interviewees B and D finalised his own retrospective construction (Weick 1985), and then added a small piece of narrative about his personal story. This elaboration was shorter than the previous ones. He then added the unsuccessful conclusion:

“In this project the entrepreneurs we selected were not the suitable partners ... this is the reality.”

The pattern followed in the interview mentioned above with regard to the interviewees’ self-construction is compatible with similar accounts related previously. Although the self-construction is based heavily on the social account, as are the interviews from A, B,

D, E and F, there are several references to unsuccessful elements that do not occur in the other Portuguese interviews. There is some evidence of this however, in interviews B, C and D, which took place in the United Kingdom.

Interviewee H was interviewed in Portugal. He is a member of a business angel club, a politician with management responsibilities in a young entrepreneurs' association. He positions himself through his social role (although, interestingly this is not primarily as a business angel, but as an entrepreneur). When asked about his membership in a business association, he responded:

“The circumstances have to do with the synergies resulting from entrepreneurs’ willingness to gain, as I chair this association of young entrepreneurs, from what is happening in Portugal in the business angel sector. On the other side, as an informal investor, I may benefit from being involved in one of these projects.”

The search for the informal investors in this case can be traced on a calculation which has an ideological element embedded in it as well as an underlying rationality. There is a positioning element looking for legitimisation. Although construction of the narrative was centred on entrepreneurship activity, there was an awareness of the limitations associated in not living close to a Portuguese metropolitan area, which as he added:

“From my personal experience, everything related with innovation that has to do with technologies or areas that I envisage as being emergent, like health or [in the] environmental area, I am perfectly aware of developments in those areas.”

This statement involves an epilogue of a previous experience and at the same time there is an enactment element associated with a chronological account. Again, there is an ideological element present in the narrative:

“In Portugal we cannot sustain the idea that only the son of a rich person or grandson of a rich person is able to run a business. Today we have to create the conditions that are external to families. The first part, the support for new business, comes from families and later from business angels and I feel that the club has a major role to play. I feel I can contribute to finance some new project.”

The centrality of this discourse is divorced from business angel activity which is dependent on his main role (as he sees it) of entrepreneur. Again there is an ideological reference, through the presentation of a model for entrepreneurial finance: involving family and, afterwards, business angels. This ideological element is linked with the efficiency concept presented in the previous statement. The assumption embedded in this piece of narrative is one where business angels may introduce additional levels of efficiency in the existing business model. In fact, as Jackson and Carter maintain, “concepts of organizational efficiency are human constructs rooted in ideology (2007: p. 242). Furthermore, this interviewee’s narrative contains some plasticity, as he goes from mapping the “out-there” to constructing the “self”, and then back again.

Interviewee J lives in Portugal, and apart from being a part-time business angel, he runs a fast-growing international service company. He starts by defining his interests:

“Well, I am interested in management systems and in themes related to the economy. I follow the trends of this new model, this new way of financing, and I found it interesting.”

This citation is important, as it frames the boundaries of his interests. Boundaries, as Jackson and Carter argue, “... are defined in terms of the purposes of those who do the defining. As such, boundaries do *not* reflect natural phenomena, but reflect human interests” (2007: p. 211). In fact, this segment of the narrative allows us to understand that the interviewee wants to frame his “self” using his interests and motivations. He later added: *“I like to know what is going on, to know new opportunities.”*

Hence by mentioning his interests there is an internal prioritisation that is externalised. This externalisation is done, in this particular case, using a positive tone. The narrative has an enactment element with two sub-levels. The first level is the intellectual one where there is reported intense activity. However, on the practical level there seems to be little energy available to conduct appraisals of the different business plans.

“I have the will in conceptual terms, however in practical terms, it is difficult. I am a business angel, a little business angel. It is some sort of a hobby.”

This interviewee, the last in this series, explained his acceptance of the importance of business angels in conceptual terms. Although the centrality of his narrative rests on this social role as managing partner of a service company (an attitude similar to those expressed by interviewee D), at the same time, he introduces a blockage to the discourse. He is unable to invest outside his native region and this seems to reinforce the marginal role of the business angel and he also frames his informal investment eagerness, which is seen as the result of his interest and motivation.

8.1.1. Key points in summary

Table 7 (p. 104) has been constructed out of relevant quotations extracted from the nine separate interviews. These quotations have already been discussed in detail above, but Table 7 provides a summary list of the issues that emerge during the process of constructing a “self” or “selves”. The construction of “self” is somewhat related to the mapping of the “out-there”, which will be explored in more detail in the next section accompanied by a similar corresponding Table 8 (p. 116).

Interviewees A, B, D, E, F and G constructed themselves primarily as business angels who had held leading roles or held positions in the top tier management in the different networks. For most of them, being an informal investor was only one of the selves they had constructed. They had also constructed other selves such as former entrepreneur, former banker, academic and consultant. Interviewee C, on the contrary, was the first to frame the “out-there”—the investment world— before it emerged that he was a formidable business angel. He was the only one to mention that he had been an academic. Interviewees H and J developed a sensemaking process by which they justified being members of a business angel club: one was an entrepreneur and politician and the other an owner and managing partner of an international service company.

Table 7 (p. 104) summarises the way in which each business angel constructs himself, and illustrates the way in which the discourses were constructed and the associated inscriptions embedded in them. The construction of the “self” was not a process independent from the process of constructing the “out-there”. Each of the interviewees constructed his own “self”. The way in which each “self” is constructed is not replicated by other interviewees, as it is framed by a web of meanings that is individual and specific in nature. What emerged from this analysis is the importance “social-self” has in the process of framing identity. To Watson, identity is “the mutually constitutive processes whereby people strive to shape a relatively coherent and distinctive notion of personal self-identity and struggle to come to terms with it” (2008: p. 252). However, this reality is in essence socially constructed. As Tietze points out, “management is intrinsically tied to language, which was here defined as a particular discourse, which embodies knowledge and which ‘empowers’ managers to enact the world in line with the concepts and values inscribed in discourse and knowledge” (2008: p. 51).

In conclusion, there are some common aspects relating to Portuguese informal investors and those informal investors living in the United Kingdom when considering self-creation. Amongst the similarities is the fact that they had all made efforts in positioning themselves towards a reality they have structured. In this process, friends, business partners and entrepreneurs hold a pivotal role. However, some significant differences also emerged. Business angels in the United Kingdom seem to offer a broader perspective of their distinctive roles in which they detail both their roles as leader or senior managers of networks and as individual business angels. The difference is that the narratives of the Portuguese business angel leaders (E, F and G) tend to focus on the organisation of the club or network whilst mentioning their past experiences as entrepreneurs or potential entrepreneurs. Another striking difference is that business angels in the UK have spoken freely, almost without emotion, about their failures and this did not happen in Portugal. The centrality of the different narratives of Portuguese network leaders was on the creation and development of networks. The United Kingdom allowed the emergence of different voices: academic, consultant or entrepreneur.

Another interesting finding was that business angels without leading roles tend to construct their selves in a process where organising is not central within the narrative. In spite of the existing similarities in the narratives from Portugal and the United Kingdom, some differences appear to exist. This might be attributable partially to the differences in market maturity, as the informal venture capital industry is much more experienced in the United Kingdom than it is in Portugal.

Table 7: Constructions of the “self”

INTERVIEWEE	ACTIVITIES	EXCERPTS FROM THE NARRATIVES	THEMES EMERGING FROM THE INTERVIEWS
A (UK)	British business angel and representative of a group of informal investors.	<i>“For clarity, I represent a group of business angels.”</i> <i>“It was an element of fun.”</i>	Organiser/journey Limited number of selves Friendship/fun
B (UK)	Former banker in the United Kingdom and business angel.	<i>“I retired from [undisclosed] bank.”</i> <i>“So I got together with someone who I knew from the bank, Set up a business consultancy.”</i> <i>“My business angel activities are supplementary.”</i>	Chronological approach Career change/enactment Friendship/Several selves Openness to failure
C (UK)	British academic, consultant, and business angel.	<i>“I was an academic.”</i> <i>“My consultancies started going well I sold a company [so] I had money to invest.”</i>	Partial chronological approach Several selves Openness to failure (indirect)
D (UK)	Small business angel and running a network of business angels across the United Kingdom.	<i>“Very small-scale business angel.”</i> <i>“I’m a regional director of a network [location undisclosed] of business angels.”</i>	Openness to failure Several selves Admits relative failure in investment
E (PT)	Former entrepreneur, business angel and leader of one of Portugal’s most important clubs of informal investors.	<i>“I was the founding partner of a tech company.”</i> <i>“I sold my position. I had money to invest.”</i>	Organising Affluent No mention of failure in investment.
F (PT)	Consultant, university lecturer, business angel and runs an important Portuguese business angel club.	<i>“I am [profession undisclosed] (...) Many years ago I developed a software for aviation (...) I wanted to build a start-up company (...) the banks never gave me a definitive answer.”</i>	Frustration (blames banks) Openness to failure (before) as an entrepreneur Narrative focused on organising activities
G (PT)	Entrepreneur and business angel, running an important investment club in Portugal.	<i>“I made a number of contacts that resulted in the founding of a club.”</i> <i>“I invested in an [undisclosed business area] I believe I won’t be able to exit shortly.”</i>	Narrative focused on organising activities Positioning (Top Managers) Openness to relative failure (walking wounded) Chronological approach
H (PT)	Entrepreneur, member of a business angel club and a politician.	<i>“I have the capacity to invest in some projects.”</i> <i>“Due to my professional experience I’m interested in everything related to innovation or tech areas or emergent areas like health or environment.”</i> <i>“In Portugal we cannot sustain the idea that only the son of a rich person or grandson of a rich person is able to run a business.”</i>	Profit seeker Political vision/Ideology No mention of failure in investment Several selves
J (PT)	Runs a Portuguese consultancy; member of a business angel club.	<i>“Well, I’m interested in management systems, and in themes related to the economy. I follow the trends”.</i> <i>“I like to know what is going on, to know new opportunities.”</i> <i>“I am a business angel; a little business angel.”</i>	Follower of new trends Friendship No mention of past or present failures in investments Several selves (although a limited number)

8.2. How do business angels construct their “out-there”?

The construction of an “out-there” is not independent from the way in which one constructs “self”. Weick argues “depending on who I am, my definition of what is ‘out-there’ will also change” (1995: p. 20). This definition enables an elaboration of the “out-there”. Therefore, there is a connection between these two entities.

The account of the “out-there” produced by interviewee A, a business angel who leads a group of 12 investors, is reproduced below. In fact, the assertion might be understood as an introductory remark:

“So it was an element of fun, a serious business opportunity to make money and an interesting journey and some [interesting] people.”

After this initial remark, this particular business angel completed the frame of the “out-there” using the time axis retrospectively. The outside world is originated by the following conjunction: fun; an opportunity to make money; the journey and the people.

The elaboration came soon afterwards:

“It was originally started in November of 2008.” He then added: *“We made our first investment in July 2009. We’ve subsequently made another four and we have three in the intelligence climate.”*

Retrospection is one of the components of the sensemaking process, but as Weick notes, “... retrospect, however, is not something of importance just for issues of sensemaking” (1995: p. 24). Of course, the account is also interpersonal. Later, there is a reference to the sectors in which they become involved:

“We have invested in a telecoms business, medical device business, gold products manufacturing business, and in a consultancy business.”

Here there is reference to the underlying business model, which although not detailed, emerges from the narratives, firstly by the indexing of the chronology of investments, and then by the sectors in which they have invested. In the following statement another dimension is added: the reason why informal investors are willing to invest:

“There are an increasing number of people with private cash, desiring to invest in the venture capital product, because, as I said, this is the money that you can afford to lose, whereas they’re getting very little return from the bank.”

This particular investor, A, framed an “out-there” model, which has an underlying ideology. This model premix seems to relate to the concepts of rationality and efficiency centred around two main ideas: business opportunities that exist and should be detected, and an idea of collective joy and amusement. The elaboration of this idea followed two different axes: time and business areas. Finally, interviewee “A” added to this mix by narrating the informal investors’ interest in providing equity, again using a specific model. In this narrative construction “we” was the most often used pronoun. Tietze et al. noted that, “the pronoun ‘we’ can be used to dilute this sense of accountability, since sometimes it is not possible to tell who ‘we’ is without more detail” (2007: p. 139). The “out-there”/outside world is understood as a place where fun is part of the project. The narrative balances between these two opposed poles: serious business opportunity and fun, where the club is central in the mediation between self-creation, positioning and the outside world.

Interviewee B, a British investor, commenting on a research document which concluded that the region where he lives in the United Kingdom has almost the lowest rate of business angel investment, started by framing the “out-there” in the following way:

“The network has no clients. We receive inquiries from businesses looking for money and from people who would like to become business angels. We run training courses for people who would like to become business angels [name undisclosed]. Typically, these are people who’ve sold their business, made some money and would like to invest in other people’s businesses. We train them.”

This is the initial model that helped to frame the “out-there” of the investor. As Weick suggests, there is a lot of action, which “is a precondition for sensemaking as, for example, when the action of saying makes it possible for people to then see what they think” (1995: p. 30).

Interviewee B goes on to say:

“I was asked whether we would have a go at that and we advertised and we went to everyone you could think of, and hardly anybody came. We had six people who turned up, and we ran the course.” He then added, *“so far, we have put 85 people through the programme so, potentially, 85 new business angels over the last 18 months.”*

This model differs from the previous one as it involves both components: the supply side, which encompasses business angels as detailed in the previous paragraph, and the demand for financial resources or entrepreneurs.

After detailing the current market conditions and future trends, the interviewee, an experienced British business angel, added the following remark:

“We are currently going through a tender process. I will be dealing with all the money today and we are trying to put a consortium together to bid for a new programme to deliver this sort of high-growth coaching and investment funding in the future.”

This helps to bridge the present with the future, as cause and effect. This narrative shares some similarities with the previous one: offering at first a first model and then providing further details of it. However, a number of differences have emerged. The link towards the future is new in this narrative, as well as the references to supply and demand. The first narrative focused on supply of funds. This account of the “out-there” starts in the distant past. Unlike the previous interview, there is not a clear positioning of the subject as it emerges from the discourse, nor is angel activity central in his account, unlike the other interviewee.

Interviewee C is a British middle-age academic who began by defining high-value, high-growth companies and contrasting them with high-profit companies. He believes that the target of business angels should be on high-growth, high-value companies. He elaborated this notion as:

“So, that’s the primary capital shift between family-owned companies that go on forever and companies that you’re using as a vehicle to grow, which you are then going to sell into the market or sell to a trade sale.”

Within this narrative, we can clearly see a bounding mechanism at work. However, unlike the previous interviews, this model is focused on the demand side. In the first interview it was evident that the focus was on the supply side, and the previous interviewee’s emphasis was on both supply and demand.

A metaphor is defined by Tietze et al. (2007: p. 34) as “particular figures of speech”, and metaphor was used by this interviewee to explain why informal investors should not, under this business model, consider investing in family-owned companies:

“There is no exit. You live with your kids”.

As other interviewees had done, this interviewee stated his own future investment preferences as a consequence of the business model he managed to develop. To stress the predicative power of his own construction, the business model, he further elaborated: *“My feeling is commodities, technology and agricultural land.”*

Unlike all the other interviewees, this business angel was willing to share some information about risk management and profitability, as he added: *“So the way you deal with risk is you spread it.”*

He then continued:

“Well, 22 per cent [of Internal Rate of Return (IRR)]; I think it’s currently a bit low, 14 per cent, but the typical portfolio will have one star with two or three failures and the rest walking wounded.”⁶⁴

This interview offered some interesting insights. The initial model focused on the demand side of the market, which was segmented in two. One of the segments was clearly non-investable. To communicate this fact, the interviewee used a powerful metaphor highlighted previously (p. 91). From there, the interviewee continued by mentioning the aspects that he considers important, and thus the way he frames the “out-there”: attractive business sectors and profitability. Moreover the model developed linguistically by Interviewee C had embedded some predictive power as he related what he thought would be the target business sectors to invest in.

Interviewee D, a business angel located in the United Kingdom, and also a leader of a network, stated the following:

“The network was founded in London four years ago by a very successful entrepreneur and his partner. Their skills-sets married very successfully.”

He began by mentioning the characteristics of the founders of the network then constructed his own story, supported by clear segmentation between old and new. He added:

“The pre-existing business angel networks were quite slow. I don’t know how this is going to translate, but very old school, very traditional culturally, very snobbish networks. So, we find ourselves the opportunity to develop as a network and a process that supports the network that was more web-friendly, a younger profile, more attractive to females, more dynamic and more exciting.”

This process of mapping the “out-there” involves the creation of a new business model, a new network, in order to overcome the problem of the previous one, which as Jackson

⁶⁴ The definition of IRR is presented on page 36.

and Carter point out “this process of problem definition is a function of model-building and boundary location, which are arbitrary, interested and mutable” (2007: p. 224).

Interviewee E, a Portuguese business angel and former entrepreneur, essayed the construction of his own “out-there” by saying:

“Put together the willingness of people with the existence of projects, and the club was born.”

This remark embeds objectivist ontology within it, as it manages these implied concepts— supply and demand—as outside entities.

Interviewee E notes the year in which a similar realisation (to that noted by the interviewee above) took place—the end of 2006—and afterwards attached to the narrative an element of dynamism, which is simultaneously social and on-going. Weick notes that dynamism is an element of the sensemaking process (1995):

“At the initial stage there were 20 associate members; now [at the date the interviews took place] there are 40.”

This narrative is based on the grounds of economic theory. But there is also an element of efficiency related to the model that is laboriously crafted.

Interviewee F, a Portuguese business angel who was, in his youth, an entrepreneur explained what drove the creation of the club in which he has a leading role:

The [network] was born from the will to support ... from the will of entrepreneurs and managers to support entrepreneurship. This structure has great advantages to business angels and for entrepreneurs: to business angels because it allows the building of a network that allows better sourcing and better screening, resting on the different skills of different business angels and also on co-investments. On the other hand, the entrepreneurs...normally it is difficult to know who the business angels are ... so they [the entrepreneurs] have a door to knock-on.”

He then added:

“The club has a model, a very interesting model, of organic growth: very Anglo-Saxon.”

The focus on the process dictated that F would elaborate further on the process of acquisition of members. He mentioned that they searched for individual members as well as collective members, as they wanted to construct a network.

Again there is a reference to the average age of forty, implying an element of youth and dynamism, compatible with the following elements that were disseminated through the narrative: *“The age structure: well, it must be around 40.”*

And an illustration of dynamism:

“We started a year and a half ago [from the time the interview took place] and we have to understand that this is an informal venture capital, the level of activity that we have is high. This informality exists because this is not a full-time job. The majority of the people do other things in life. We have analysed 80 projects so far, and we have invested in three projects.”

The club, a linguistic entity, is constructed not only as a meeting point between supply and demand for funds, but also as a location for meeting different interests as detailed in the citation.

Interviewee G, a business angel and a personality that led to the creation of the business angel industry in Portugal, mentioned:

“I felt that in Portugal at the time, formal venture capital companies, even those of an institutional nature, were not able to support in the seed and start-up phase...then some friends (with international experience in these areas) suggested to me that I should form a club of business angels in Portugal as a means of catching the attention of small entrepreneurs, to help me overcome the difficulties in financing the projects.”

He then added: *“Our club started at the top.”*

What he meant by this was that their members were top managers at the time the network was formed, as opposed to the other narratives which started from economic perspectives. This is the first account to begin by defining the club by the market position of its members.

Interviewee J sees the clubs as a platform to invest and to earn money:

“As you know, I should be involved in something that from ten will evolve to hundreds. And I would try to get a hundred to get a thousand. I would never invest more than a million. People sometimes need a small push. I do not mean a big push in financial terms. But a business angel is not a fellow that only throws in money. We have what is called a smart man and he therefore brings more than that [money]. It should be something that I feel I would bring something of myself into the projects. Therefore it should be in the services sector.”

By saying interviewee J understands the activity as a money machine although risk is never embedded directly in the narrative. However, the current crisis is addressed in this way:

“What seems to exist is that financial resources are scarce resources. We all are more selective, you know it better than anybody else. All the banks ... and business angels are no exception. Now people are all with their feet on the ground ... those business plans with those absurd growth rates. My mood to invest is the same as before, but now we are more realistic.”

Interviewee “H” framed the outside reality in the following terms:

“The circumstances have to do with the synergies that represent, on one side, the competencies as the chairman of a network of young entrepreneurs, from exploring what has been done in the business-angel area in Portugal. On the other hand, as a potential investor given the opportunity of sponsoring and benefiting from a new business venture in Portugal. There are a number of projects of new business ventures

that have been presented and the opportunity given to a young creator, in terms of a project idea, giving him a chance to create his own business because, in Portugal, we can no longer sustain the idea that only those who have a rich father or a rich grandfather, are the ones who can run a business. The share of risk and benefits is something that I see as healthy in the market.”

Interviewee H also commented on the crisis:

“The crisis has two moments: the first moment and the second one, where we are now. It leads to a retraction of the investor, and a concentration on safer areas than the way we react in the first stage. In the phase in which we are beginning to enter, there is a temptation to do ‘housekeeping’, that is, to look at the market and say: no, no, the market is starting to emerge again [to become bullish] and we have to invest: to invest where; traditional areas or areas with growth potential? It’s obvious that we are interested in investing in new areas. That is where the great opportunities lie.”

In this section we have analysed the ways in which business angels or informal investors have attempted to construct – using different narrative resources – the “out-there”. The process of generation begins with the creation of an object, a club or network, or an idea, and from this a model is then presented. This is the starting point in a laborious process of mapping the individual process of the “out-there”. Burr notes, “I have suggested that our experience of ourselves, how we understand others and ourselves, does not originate in pre-packaged forms inside us” (2007: p. 48). In this respect each of the interviewees has managed to construct, using specific narrative resources, his personal “out-there”, which is illustrated in Table 3 (p. 27). The following section will be devoted to analysing the links (if any) between the “self” or identity and the mapping of the “out-there”.

8.2.1. Key Points in Summary

Table 8 (p. 116) summarises the ways in which the informal investors interviewed construct their own “out-there”. As mentioned, the “out-there” is constructed in such a

way that business angel activities, while present in the discourse, are not in some cases central to the narratives. This is more evident in the narratives produced in the United Kingdom than it is among those produced in Portugal. In the United Kingdom the interviewees despite being informal investors, happen to reveal that they were involved in business clinics, business incubation parks, networking with lawyers and consultants. The actor therefore embodies several identities in his process of social construction.

In Portugal, however, organisation is central to the narratives. All three leaders from entirely different networks produced narratives in which organisation was central to their discourse, as illustrated in the remarks that follow:

“...demand for financing” (Interviewee E)

“...a group of entrepreneurs seeking to support entrepreneurship” (Interviewee F)

“...business opportunity noted by a foreign partner” (Interviewee G)

In the United Kingdom, the elaboration of the “out-there” started out from different approaches: exploration of the unknown; career development, triggering development of skills of both entrepreneurs and, simultaneously of business angels and modelling, with an innovative approach to the market (segmentation of the market). The frame of the “out-there” was very distinct: *“so it was an element of fun, a serious business opportunity to make money and an interesting journey and some [interesting] people”* (interviewee A), whereas interviewee C argued, *“there is a difference between high value and high growth”* [companies]. Interviewee B noted, *“... we receive enquiries from people looking for money and from people who would like to become business angels”*.

Interviewee D, on the other hand, framed it in this way: *“The pre-existing business angel networks were quite slow.”* He then added, *“a young profile, more attractive to females, more dynamic and exciting.”* In spite of the differences in approach among these narratives, the common characteristic is that the business angel introduced more layers of complexity in the mapping process. This, in general, was more complex in the United Kingdom where the market is much bigger and more mature than in Portugal.

A striking aspect is that the current economic crisis is seen differently in Portugal than in the United Kingdom.

In Portugal the crisis it is seen as a means to “*clean the house*” (interviewee J) and “*search for new opportunities*” (interviewee H), and “*being more selective in investments*”. Although other business angel leaders see the current financial and economic crisis as a blocking factor (a depressed market), there is as well an opportunity for enactment. This might mean lobbying for government to implement measures to promote early-stage investments, either by approving tax incentives (a recurrent topic) or by implementing co-investment schemes. In the UK and unanimously among the interviewees from both Portugal and the UK, the crisis is perceived as a window of opportunity to be found and then exploited. The “*returns offered by banks for deposits are low*” (interviewee A), meaning that the cost of opportunity associated to bank-term deposits is high.

Yet other interviewees elaborated on interesting prospective sectors: “*my guess is commodities, technologies and agricultural land*” (interviewee C). Another said: “*The number of deals is what’s changed. I think in sector terms, there are some sectors that are more favourable, like environment and the green sector,*” (interviewee B) added with a positive note of confidence. Lastly, interviewee D stated: “*In my opinion, yes: [the crisis] has changed it, has changed it positively and negatively.*” When asked about the positive aspects he said: “*If I have the available cash, I would be more interested than 18 months ago in angel investment because bank rates are so low, the number of businesses seeking growth finance from sources other than banks is so high.*” On the other hand, when he was asked about the negative side of the current financial and economic crisis he stated categorically, “*the increase in risk*”.

Table 8: Mapping the “out-there” among business angels

INTERVIEWEE	EXCERPTS	THEMES EMERGING FROM THE INTERVIEWS
A (UK)	<p><i>“We made our first investment in July 2009. We’ve subsequently made another four and we have three in the intelligence climate.”</i></p> <p><i>“Full-moon get-together.”</i></p> <p><i>“Friendship involved and friends of friends.”</i></p> <p><i>“Returns offered by banks are low.”</i></p>	<p>Journey/Fun</p> <p>Serious business opportunity</p> <p>Crisis/opportunities: the cost of having money in the bank is high</p>
B (UK)	<p><i>“The network had no clients. We received inquiries from businesses looking for money and from people who would like to become business angels.”</i></p> <p><i>“We are currently going through a tender process.”</i></p>	<p>Detection of a market failure</p> <p>Business opportunity</p> <p>Crisis/opportunities; discussing public funding, connected to discussion about banks</p>
C (UK)	<p><i>“So that’s the primary capital shift between family-owned companies that go on forever and companies that you’re using as a vehicle to grow.”</i></p> <p><i>“The best money is the dollar from your customer, not the dollar from the government.”</i></p> <p><i>“My guess is commodities, technologies and agricultural land.”</i></p>	<p>Modelling, forecast</p> <p>Avoid government</p> <p>Crisis: modelling positioning for the future</p>
D (UK)	<p><i>“Network change: old school, very traditional, culturally very snobbish.”</i></p> <p><i>“New network of business angels: web friendly, younger profile, attractive to females. Links to network of incubation-units and supporters.”</i></p> <p><i>“If I have the available cash, I would be more interested than 18 months ago in angel investment.”</i></p>	<p>Segmenting</p> <p>Organising change: old school v. new approach</p> <p>Crisis: new investment opportunities</p>
E (PT)	<p><i>“Put together the willingness of people to invest with the existence of a project, and the club was formed.”</i></p> <p><i>“At an initial stage there were 20 associate members, now we have 40.”</i></p>	<p>Club: meeting point</p> <p>Organising</p> <p>Action/number of members</p>
F (PT)	<p><i>“The network was born to support entrepreneurship.”</i></p> <p><i>“The club as a model, very interesting model, of organic growth.”</i></p>	<p>Support entrepreneurship</p> <p>Action–growth</p>
G (PT)	<p><i>“Our club started at the top.”</i></p> <p><i>“Friends suggested [it].”</i></p> <p><i>“[club formation] as a means of catching attention of the small entrepreneurs, to help me overcome the difficulties in financing projects.”</i></p>	<p>Failure of the market: support new ventures in seed phase</p> <p>Friends</p> <p>High-level contacts</p>
H (PT)	<p><i>“The opportunity given to a young creator.”</i></p> <p><i>“Giving him a chance to create his own business.”</i></p> <p><i>“In Portugal we cannot sustain the idea that only the son of a rich person or grandson of a rich person is able to run a business.”</i></p>	<p>Confluence of entrepreneurs/business angel vision</p> <p>Ideology</p>
J (PT)	<p><i>“Invest 10 receive 100; search for opportunity, global opportunities; co-investments, risk-sharing.”</i></p> <p><i>“The resources are scarce.”</i></p> <p><i>“We are more selective.”</i></p>	<p>Friendship</p> <p>Trend follower</p> <p>Crisis: resources being scarce</p>

8.3. What kind of bounding mechanism emerges, if any, to structure the construction of “self” and the mapping of the “out-there”?

This section is devoted to answering the third and final research question. Each of the interviews will be analysed and subjected to scrutiny in order to unveil the connections, if any, between self-construction and the mapping of the “out-there”.

Interviewee A implies that there is a connection between the “out-there” and “self”, saying: *“For clarity, I represent a group of business angels who are investors of funds.”*

The creation of the object, – the club – which is not mentioned at this stage in the conversation but is implied in the narrative, is tacitly understood by both interviewee and interviewer. Afterwards the interviewee details his own mapping of the “out-there”, in this case confirming the date of the founding of the club and the number of projects it is currently sponsoring.

The business activities generated by the club are social, ongoing processes (Weick 1995) which, by nature, have two levels: the first is the so-called external level, connections or liaisons with external counterparts; the other is an internal element, which should not be forgotten. The linkage between these two hemispheres, as is illustrated by Table 9 (p. 127), is supported by the following remarks:

“Let’s go and see how it works” and “So it was an element of fun, a serious business opportunity to make some money, and an interesting journey and some [interesting] people.”

The connection is established using dynamic bridging words such as “let’s go” and “journey”. Both words implicitly contain movement or action and there may be a gender-specific tone detected in the language that relates to adventure or to “all the boys together”. This account, therefore, disseminates signals on two distinct directions: construction of the “self” and also of the “out-there”.

In interview B a chronological story is constructed and sustained by cause and effect loops. These mediate between “self” and the “out-there”. In this discourse, the personal account which followed a retrospective path (Weick 1995) is supported on the following remarks: *“I retired from [not disclosed] bank, and set up a consultancy.”*

This account is then interrupted in order to bring the mapping of the “out-there” into the centre of the narrative:

“Coincidentally at that time, the regional development agency had carried out some research on business angels. [Undisclosed region] had amongst the lowest number of business angels in the country and the lowest number of activities that put money ... being invested in business.”

The connection is established in two different waves, first there is the framing of the pre-existing circumstances of “out-there”, which could be read as the sensemaking process (Weick 1995) behind the creation of the network.

In the following sequence:

So, I got together with someone that I knew from the bank who was there (at this regional development agency) and some other people to think what we could do about that. Over about a year, we formed [undisclosed name] network. I chaired.”

Interestingly, the central theme at the beginning was the voice of a former banker, and then the consultant-would-be business angel joined the narrative. This then gave place to the voice of an activist for the regional development cause where informal investment activities are not central. The connection world “*coincidentally*” allows the interviewee to step away from the “construction self” toward the “out-there”.

Interviewee C focused on the creation of an “out-there”. This creative move was supported in the development of a business model while dividing the business world into two opposed hemispheres: the high-value and high-growth companies. Afterwards

the interviewee focused on the high-growth companies' segment. This required the active involvement of the interviewer.

“So, you plant all the property back into the company... so you never take a profit out ... high investment because the investment is what fuels the growth.”

“... sale in five years expecting, like, doubling every year [growth in revenues].”

Although the model created by this narrative using several linguistic resources was timeless in essence, in the later interviews, there is a development towards framing a projection of the future. This produces an increased level of sophistication in the mapping of the “out-there” by the informal investor.

Interviewee C positions himself as an academic: *“I was an academic”*, who develops business models to construct his own “out-there”.

The developed business model also has a predicative power pertaining to the sectors that are supposed to prosper under the financial crisis. The connection may be detected in the following statement: *“My feeling is commodities, technology and agricultural land.”*

In fact, this statement has another dimension, which relates to the interviewee's own skills and competencies. Besides the network activities to which the interviewee is linked, he does not have a central role in framing the “out-there”.

Interviewee D mentioned that as well as being a business angel, he has also managed an informal investors' club.

“I ran a business that supports hundreds of business angels; we are a broker, so I may have different answers.”

This assertion is important in this context because it connects “self” with the “out-there”, at the linguistic level, represented by the club. From then on, the interviewee

elaborated on the club, broadening the perspective, and using the club as a platform to set boundaries about the definition of the “out-there”.

“This network was founded in London four years ago by a very successful entrepreneur and his partner.” And *“So found us the opportunity as a network ... I was asked to run the network.”*

At this point, the narrative evolves by adding more collective issues but within defined boundaries:

“We do a lot of online promotion, so our website is an optimised search engine; we do a lot of networking on social media. So we have LinkedIn, we have Facebook, we have Twitter, we do a lot of personal networking.”

Hence in this discourse, the club or network is the object that mediates between the “self” and the “out-there”. This is also the case in interview A, and indirectly, in B. In the former interview two themes hold the centrality in the narrative: the development of the business-angel network, and the activities of the interviewees as small business angels. In addition, the development of the network is contrasted with the past: *“... pre-existing business angel was very old school, very traditional, culturally very snobbish,”* as opposed to the new business model. The connecting segment may be seen in the following statement:

“I was asked to run the original business angel club [in an undisclosed region] but lately also the ... [undisclosed region] neighbouring one.”

The dichotomy between old and new is the way the constructed reality departs from this statement and this connects the “self” or identities towards the outside.

In interview E, the club formation has a pivotal role in the narrative formation. It is constructed as a natural consequence of the action of demand and supply for financial resources:

“The business angel club [name undisclosed] emerged due to two forces: there were a number of business projects to be financed, and there were a number of people who lived in [undisclosed city] that were willing to invest.”

While referring to the characteristics of the founder of the club, he introduces an account about himself into the central narrative:

“They are people who had companies and sold them and have the financial resources to invest the funds. I’m going to mention two or three cases...I sold my equity positions in [undisclosed company].”

In this case, the enactment situation is somewhat linked to the sensemaking process observed in interview B. However, there is an important difference. In interview B the actor managed to announce the formation of the club after the sensemaking process had taken place. In this instance, interviewee E announced the existence of the club before undertaking the sensemaking process. The connection point is *“The business angel club [name undisclosed] emerged due to two forces.”* As observed in interview B, the network has a central role in the discourse as it mediates between the interviewee and the “out-there”. This characteristic is common in interviews A, B, D, F, G and E. However this characteristic is more visible and striking in A, and indirectly in B and E. Interviewee F mentioned the formation of the clubs starting immediately afterwards by elaborating on the sensemaking process which sustains the foundation of the club.

“The network was born due to the will of a group of entrepreneurs and managers that wanted to support entrepreneurship.”

The essence of this narrative construction is no different from those that emerged from interviews A and indirectly in B, D and E. The networks have a pivotal role in the construction of the “out-there”. In this particular discourse, immediately following the justification for the formation of the club, the actor/subject noted:

“When I was young I had a business idea and wanted to form a start-up. Unfortunately, the bank did not secure financing.”

The frustration associated with this, embedded in the “self”, may be read as linked to the justification of the formation of the network: *“A group of entrepreneurs and managers that wanted to support entrepreneurship.”*

Apart from the connection between the inability to secure support from banks 20 years ago and the externalization, throughout the formation of a network, to support entrepreneurship, the development of this externalization mechanism is very much grounded on socialisation both internally and externally. The method uses business model building as a frame.

Interviewee G started to address this “out-there” by offering a chronological report. He places the formation of the club in a specific time frame, 1999 and 2000, and then starts to build retrospectively, using the pronoun “I” extensively:

“The history of business angels in our country began at the end of 1999, more precisely in early 2000. At the end of 1999, I made a number of contacts.”

Conceptually, the announcement of the formation of this particular club or network emerged after the reference to the history of business angels, and following the remark that the foundation of the clubs occurred in early 2000. This is after several contacts that took place at the end of 1999. Berger and Luckman argue, “Habitualisation further implies that the action in question may be performed again in the future in the same manner.” (1966: p. 53) Confirmation of this process can be seen as interviewee G was later involved in the founding of a number of other new clubs throughout Portugal and the formation of the Federation in 2007. The connection mechanism is seen in the comment: *“I made some contacts”*.

Interestingly, unlike the previous two narratives, there was a break and then a rebound. The initial impulse in 1999 was later disrupted by the “dot com” crisis. Later, in 2006, there was a revelation. Like the previous discourses this one focused on organising the clubs and the Federation.

Interviewee H alludes to hypothetical synergies emerging from his two distinct social roles: chair of the Young Entrepreneurs Association, and being a formal member of an informal network. He sees these as ways in which he is connected to the “out-there”. These two social roles will be present throughout the narrative as helping to bridge the “self” and the “out-there”. The connection moment is seen in the following statement:

“The competencies as chairman of a network of young entrepreneurs [are] from exploring what has been done in the business-angel area in Portugal.”

Interviewee H positions himself as a bridge between the young entrepreneurs and business angels. While being an entrepreneur he adds another “social-self”, that of, business angel, when he argued:

“As a potential investor gives the opportunity to benefit from some project, there has been several [that were presented to business angels], giving an opportunity to some young developer, giving him a chance to create his own business.”

Lastly, interviewee J links himself to the “out-there” through his own interests and preferences:

“I am a person interested in management topics and in economic issues and I heard about this new trend, this new model, this new form of financing.”

In fact the connection is through a friend:

“There was a contact [name of the person undisclosed] who was considering establishing a network.”

By attaching several labels he begins to build the “out-there”. However, he then starts to put some constraints or limitations on it:

“I have the will [to invest] in conceptual terms.”

“This is a hobby in which I would like to see what kind of projects appear.”

“We are focused on our professional duties, and 99 per cent of the projects that come by are not regional projects.”

These three extracts from the narrative establish a connection or link between the structuring of “self” and “out-there”. The links with the “out-there” are sustained on a motivational factor: interests. However powerful these factors are, though, there are still some relevant constraints: professional responsibilities and the individual characteristics of the projects. The bonds that link “self” and “out-there” seem to be less strong in this interview than among the others.

Unlike the previous discourses, this Portuguese business angel does focus on business-angel activities but structures his “self” as to link business angel activities as lateral in the discourse. This pattern is also observed in C, H and J.

After framing the way in which each interviewee established the connections between his own identity and the “out-there”, what emerges is a connection between the creation of identity – a plastic concept – and the creation and re-creation of the “out-there”. In the next and final section of this chapter the findings of this analysis will be discussed.

8.3.1. Key takeaways

In conclusion, business angels or informal investors have constructed themselves in a variety of ways. They position themselves from different backgrounds and social classes or by having certain groups of friends or partners. These diverse constructions are crucial to understanding the ways in which they frame the “out-there”. Interviewees A, B, F, G, H, and J position themselves whilst considering their friends and professional colleagues. Interviewees C, E and F position themselves mainly against market forces.

In Portugal, those who have leading roles in business angel clubs or networks are much more focused on organisation and control than business angels in the United Kingdom.

In the Portuguese narratives, the multi-voice of the discourse is much less common than in the United Kingdom where there is more voice diversity. This means that the organisation identity is more visible in the narrative of the Portuguese business angels who happen to lead networks (E, F and G) compared with those in the United Kingdom. In this case the construction of the “self” is connected to growing (E, F and G), whereas in the United Kingdom, interviewee A positioned himself against a context modelled by fun and serious business opportunities. However, interviewee D positioned himself against a dichotomous context – between the new network and the “old school” network.

On the other hand, the interviewee in the United Kingdom who did not mention having a leading role in an informal-investor network positioned himself against his own business model. The way his “out-there” was structured was linked to the way he elaborated “self”: “*I am an academic*” (interviewee C). This “self” was also linked to the way that his “out-there” was structured; through the elaboration of a macro-economic model: “*the difference in large stock and high-growth companies*”. Interviewee C, therefore, defined the appropriate business to invest in according to its yield, as opposed to selecting a business or an area of business that interested him or where he might have a specialism.

This is in contrast to interviewee B, who stated: “*My background is in banking. I retired in [undisclosed year]: I worked in the integration programme [in the bank] and had to integrate myself to set up a business consultancy.*”

The career change in this case is linked to a detection of a market failure that transformed itself into a business opportunity. This career change was constructed by the detection of a market failure, which was explored, using the following binding process: “*coincidentally, at the time the regional development agency [name not disclosed] had carried out some research on business angels.*”

From the two previous examples, it emerges that there is a connection between these two distinct realities: the “self” or identity construction and the mapping of the “out-there”. The dynamics of this interaction will be explored in the following section.

When there is a loose construction of the “self” (interviewees A, H and J) there tends to also be a loose construction of the “out-there”: the investment history and profile, together with a high degree of informality when explaining how the network works. This is true among interviewees in both the United Kingdom and in Portugal.

Where there is a more structured construction of the “self”, there is a tendency for a more structured presentation (construction) of the “out-there” (Interviewees B, D, E, F and G). Moreover, the higher the ranking of the interviewee within his own network the more concrete the interviewee’s perception of his own organising efforts. This is especially true within the Portuguese interviews (Interviewees E, F and G).

Table 9: Connecting the construction of “self” and mapping of the “out-there”

INTERVIEWEE	EXCERPTS	BOUNDING MECHANISM
A (UK)	<p>“Let’s go and see how it works.”</p> <p>“So, it was an <u>element of fun, serious opportunity to make money and an interesting journey and some people.</u>”</p>	<p>Action</p> <p>Socialisation</p> <p>Fun</p> <p>Narrow perspective of the “out-there”</p>
B (UK)	<p>“<u>Coincidentally</u> [undisclosed entity] had carried out some research on business angels.”</p>	<p>Mixing the narratives (“<u>coincidentally</u>”)</p> <p>Broader perspective of the “out-there”</p> <p>Focus shifted from business angel activities</p>
C (UK)	<p>“I was an academic.”</p> <p>“<u>My feeling is commodities, technology and agricultural land.</u>”</p>	<p>Modelling</p> <p>Prospective account</p> <p>Guess</p> <p>Broader perspective of the “out-there”</p>
D (UK)	<p>“<u>So find us the opportunity as network.</u>”</p> <p>“Network more web-friendly, younger profile, more attractive to females.”</p>	<p>Efficiency/segmentation</p> <p>Broader perspective of the “out-there”</p>
E (PT)	<p>“I sold my company.”</p> <p>“<u>The club emerged from two forces.</u>”</p>	<p>Club: the art of positioning</p> <p>Career development</p> <p>Narrow perspective of the “out-there”</p>
F (PT)	<p>“In my twenties I was unable to start a company.”</p> <p>“The systematic response from the banks was if I was interested in a mortgage to buy a house, <u>then it would be possible.</u>”</p> <p>“From the will of entrepreneurs and managers <u>to support entrepreneurship.</u>”</p>	<p>Club: sublimation of frustration</p> <p>Narrow range of the “out-there”</p> <p>Organising</p>
G (PT)	<p>“I invested in a company with my partner.”</p> <p>“<u>I made some contacts.</u>”</p>	<p>Entrepreneur</p> <p>High-level connections</p> <p>Market failure</p> <p>Narrow perspective of the “out-there”</p>
H (PT)	<p>“From <u>exploring</u> what has been done in the business angel area in Portugal.”</p> <p>“As a potential investor <u>give the opportunity to benefit from some project.</u>”</p>	<p>Positioning</p> <p>Benefit</p> <p>Wider perspective of the “out-there”</p>
J (PT)	<p>“I am interested in management systems and in new trends.”</p> <p>“<u>I heard about this new way of financing I thought it was interesting.</u>”</p> <p>“There was a <u>contact who was considering establishing a club.</u>”</p>	<p>Listening</p> <p>Trend follower</p> <p>Positioning</p> <p>Narrow perspective of the “out there”</p>

8.4. Discussion of the results

This section discusses the most relevant findings to have emerged from the research questions.

8.4.1. Linking the “self” and mapping the “out-there”: unforeseen complexity

What emerged primarily was that there is a shift from the initial “self” towards the mapping of the “out-there”. However, the initial frame of the “out-there” evolves towards a more complicated elaboration of the world, which is illustrated in Figure 4 (p. 129).

Figure 4 summarises one of the relevant findings of this research, that the construction of the “self” is not an immediate event. The research revealed that the narratives evolved; a number of signals were emitted and captured, which allowed the interviewer to gradually understand the way the “self” was being constructed, and the way the “out-there” was mapped, including the position of the network.

It is important to note that, during each interview, several iterations occurred within this framework. In fact, there was an initial statement that ignited the construction of the first and preliminary profile of both the “self” and the “out-there”. As the narrative progressed, there is an elaboration of the mapping of the “out-there” which impacted on the way the “self” was constructed.

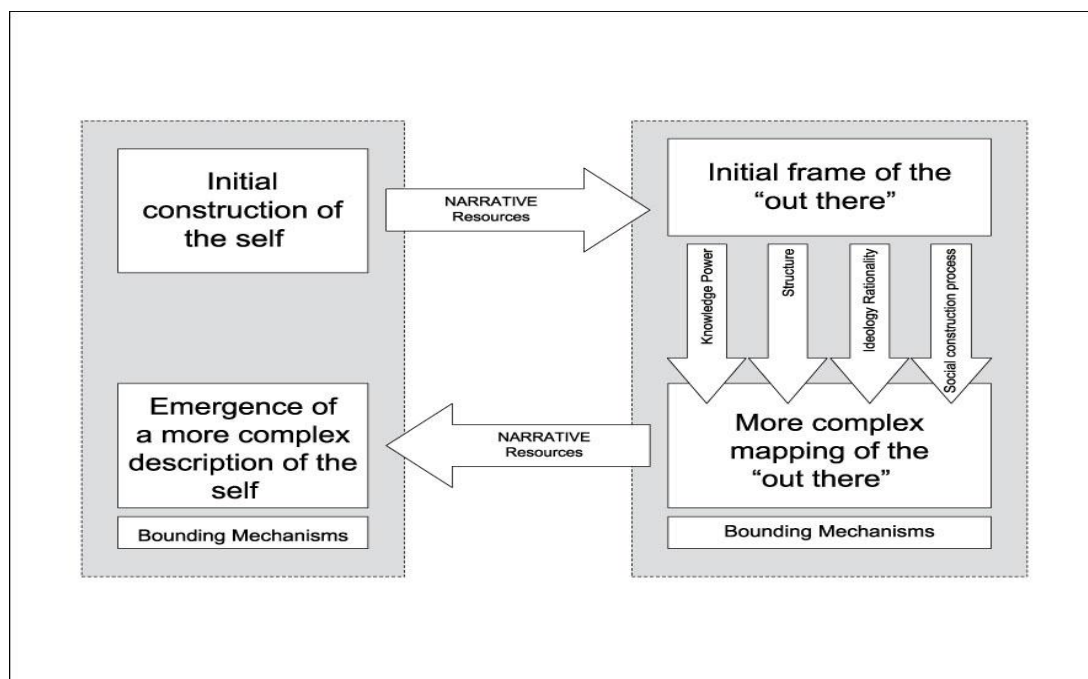


Figure 4: Linking the "self" and mapping the "out there". Source: author's own.

As seen previously, the framing of the "self" is built from the individual's conception of the "social-self" (Watson: 2008). Figure 4 (above) illustrates the narrative artefacts that the different interviewees used to construct their initial "self". From this early definition there is a first structure of the "out-there", as is evident in Table 8 (p. 116). This initial semantic construction became much more elaborate as the narrative progressed. At the end of the narratives there is a more complex construction of the "out-there", but at the same time, this mapping helps in understanding the more complex "self" that has woven this process.

8.4.2. "Self" and "social-self": construction, reconstruction

Most of the different constructions of the "selves" were primarily supported on the social selves: business angel, both experienced as well as potential; leader of a club or networks of investors; current and former entrepreneurs; current and past consultants; academics; managing partner of a service company; chair of a young entrepreneurs' association. These were some of the "social selves" that emerged from the nine interviews. On average, only a small number of "social selves" emerged. However in

certain interviews, such as in interview C, a considerable number of “selves” emerged: consultant, academic, business angel, and entrepreneur.

The narrative resources used by different interviewees diverged widely. These are some of the responses:

“I represent a group of business angels”

“Over about a year, we formed [name undisclosed]”

“Originally I had sold the company. I had some money. So, to start a company seemed the obvious thing to do”

“I do, personally, small investments and the other is where I ran a business that supports hundreds of business angels”

“Let’s see, the club was formed by the confluence of two forces”

“The club was formed due to the will of entrepreneurs and managers”

“The history of business angels in Portugal started in 1999”

Interestingly, in some cases the role of the business angel remained central from the beginning of the narrative until the end. This is the case in interviews A, D, E, F and G. For interviewee H, the informal investment concept remained central in the narrative, but with a looser model. The centrality of informal investors did not persist with interviewee B. He began by focusing on business-angel activities and then shifted towards regional development. Interviewee C concentrated on modelling – most of the time – before addressing business-angel activities.

8.4.3. Pronoun usage: balancing between collective will and individual leadership

Some of the interviewees used the pronoun “I” extensively in their narrative, which as noted earlier, and as Tietze et al. point out, “using the pronoun ‘I’ can have only one meaning” (2007: p. 139). In using “I” therefore, the interviewee is taking personal responsibility for their actions and beliefs while those interviewees who tended to use the pronoun “we” might be seen to be dilut[ing] “the sense of accountability” (Tietze et

al. 2007: p. 139). Interviewee G makes extensive use of the pronoun ‘I’, whereas interviewee F uses the pronoun “we” more intensively. The other interviewees used both forms interchangeably.

When addressing personal issues or stories the interviewees tended to use the pronoun “I”; whereas when recalling experiences with their clubs, networks or associations they were more prone to using the pronoun “we”.

8.4.4. Mapping the “out-there”: stories and myths relating to heroes and villains

The representation of the “out-there” is rooted in the different constructions of the “self”, which in turn is a departure from “otherness”; Jackson and Carter offer insight into why this might be: “we are born into the pre-existing world of the other—the other being all people and things which are not us, or, rather which are not I” (2007: p. 185).

The mapping of the “out-there” has an underlying model: investment, development and finally negotiation of the sale. Under this model, there is a framing mechanism by which “leaders describe the present and future purposes of the group” (Tietze 2007: p. 136). The club has a pivotal role as it represents the confluence of both the supply of financial resources, through business angels or informal investors, and the demand for funds, undertaken by entrepreneurs, in an effort to finance their own new business ventures.

There are a few “heroes” in these different narratives: those who have undertaken the charge to start or manage networks. There are also a few “villains”, which are referred to exclusively in the Portuguese interviews.

“The government created a model that does not function.”

Apart from the government, there are two references from different business angels regarding entrepreneurs they have dealt with:

“There was a project in [undisclosed Portuguese region] that did not go ahead due to a lack of commitment of the entrepreneurs.”

Then there was the following: *“They [the entrepreneurs] have stolen from us!”*

Following these references to “heroes” and “villains” the relevant myths address the informal investors’ return of investment. Gabriel states that myths “are narratives that carry powerful symbolism” (2008: p. 191). A recurrent theme among interviewees was that risk and loss were not central to the narrative of business angels. Here are some examples:

“Great opportunity to invest in emerging business.” (Interviewee A).

“There were a number of people willing to support new projects.” (Interviewee E).

“It was founded as a group of entrepreneurs and managers who were willing to support entrepreneurship.” (Interviewee F).

“I should form a club of business angels as a means to catch the attention of small entrepreneurs, to help me to overcome the difficulties in financing the projects.”
(Interviewee G).

Only in interviews that took place in the United Kingdom were there references to losses:

“I have had one bail out, money lost.” (Interviewee B).

“The typical portfolio will have one star with two or three failures and the rest are walking-wounded.” (Interviewee C).

“One exited by itself; went into liquidation, it didn’t work, part of the risk that you take.” (Interviewee D).

In Portugal there was a reference to what seemed to be a “walking wounded” investment:

“I invested in a company in 2003 and I am unable to see how I am going to exit from this project.” (Interviewee G).

To conclude, what emerged from analysis of the different narratives was that the link between the mapping of the “out-there” and the identity-construction process is more complex than previously expected.

However, the nine different voices produced rich texts involving stories, myths, metaphors and other narrative devices. Finally, the “self” as much as the “out-there” are constantly being constructed and reconstructed through linguistic exchanges. In the United Kingdom, the interviewees were more willing to accept and share with the interviewer the existence of losses in their investments. In Portugal, the focus of the different discourses was to stress the *growth* of the different networks.

While acknowledging the differences in the narratives, a connection between how the “self” is constructed is apparent. Multi-voices are sometimes used in the construction of the “out-there”, and while the connection is more visible in some cases, in other narratives, the linkage is visible but to a lesser extent.

Earlier in this section the concepts of heroes and villains was introduced, but as pointed out above it is not possible to define heroes without defining villains.⁶⁵ Heroes can be either the investors themselves – who through their own efforts and persistence work to structure and expand business angel networks – or the entrepreneurs for their innovative business ideas. Villains, on the other hand, can be either individuals or institutions.

In the United Kingdom interviews, heroes were those responsible for structuring partnerships, entrepreneurs devoted to their business, those responsible for developing camaraderie between business angels, those who promote joint efforts with entrepreneurs and public bodies that support entrepreneurship. In Portugal, however,

⁶⁵ As pointed out in Chapter 2.1, it is not possible to define an angel without also defining the demon, “when you use only one term in a binary, you implicitly draw on its opposite” (Hatch and Cunliffe 2006: p. 53).

generally speaking, those committed to supporting entrepreneurship, those business angels who have undertaken strenuous efforts to promote network growth and efforts from publicly funded venture capital companies to support new business ventures at seed and early stage phases are all associated with heroic status. In terms of investors, there are two sub-types: those who have a more active role in the process (the visionaries), and the rest whom, while being collaborative, are less active (followers), this is especially visible in the accounts relating to the formation and later expansion of informal investors. In terms of Portuguese institutional bodies, the heroes are the publicly owned venture capital funds who decided to support seed and start-up business ventures, as emerges from Table 10 below.

It is notable that in the United Kingdom there is a predominance of personal references among the individuals deemed heroic. These individuals are predominantly linked to the consulting industry. They are also those who are seen to have a “vision” or those adept at team-building. In Portugal, however, both institutions and individuals were named as heroes.

	Efforts	Themes
Heroes in the United Kingdom	Structuring Partnerships	Positioning business “Vision”
	Entrepreneurs Devoted To Their Businesses	Focused Motivation
	Improving Relations With Business Angels	Team Building
Heroes in Portugal	Expanding Business Angel Networks	Business Vision
	State Owned Venture Capital Companies	Strategic Positioning

Table 10: The construction of entrepreneurial heroes in the United Kingdom and Portugal. Source: the author’s own.

Regarding villains, two types emerged in Portugal: the individual and the institutional. Of the former type, the term was linked to entrepreneurs who failed to secure their commitment to business or those who were seen to be unethical in their business practises. Of this type, the narratives were more personalised and the implicit condemnation was more vivid as the details of the incidents were presented.

The institutional villains in Portugal were those public bodies that were seen not to have produced supportive legislation or, alternatively, did not produce effective legislation on taxation to support informal investors. On the other hand, formal venture capital companies that did not support new business ventures, as it was perceived they should, were also considered villains. The criticism of institutions, while evident, was less acute and detailed than when compared to similar accounts involving individual entrepreneurs.

In the United Kingdom, the villain epithet was frequently connected to entrepreneurs who failed in new business ventures, but unlike their Portuguese counterparts, there was not a full detachment of the business angel from the entrepreneur. In fact, as mentioned above, informal investors in the United Kingdom were keen to speak up about their failures. In narratives produced in the United Kingdom, the villains – those who have failed – are treated with some compassion and are seen as victims of a voluntary game they decided to play together with informal investors. In other words, no one and everyone can be seen as the villain and the hero in a game with equal stakes.

Villains are treated in a slightly different way depending on whether the narrative is produced in Portugal or in the the United Kingdom. In Portugal, the villain is treated in two ways, collectively (as an institution) or personally (as an individual). When defining the villain in personal terms, contrary to in the United Kingdom, the narratives from Portugal are more detailed, with a negative emotional charge attached to it. When villains are institutional bodies, such as venture capital firms or government agencies, the Portuguese narratives are less detailed and, although present, there is a lesser negative emotional charge involved in it.

	Efforts	Themes
Villains in the United Kingdom	Entrepreneurs Who Went Bankrupt Those Who (*) Have Failed To Attend Development Seminars	Vision (Lack)
Villains in Portugal	Entrepreneurs Who Failed (In Commitments) Entrepreneurs Who Failed (in Ethical Grounds) Government State Owned Venture Capital Companies	Commitment (Lack) Ethics (Lack) Vision (Lack) Strategic Positioning (Lack)

(*) both informal investors and entrepreneurs

Table 11: *The construction of entrepreneurial villains in the United Kingdom and Portugal. Source: the author's own.*

During the interviews the narrative shifted as it unfolded. In fact, entrepreneurs were described as being heroes for their different business ideas and then later, in the same narrative, were reported as villains albeit for different reasons.

On the other hand, there were villains that were transformed into heroes as well. This happened in situations mainly involving formal venture capital companies which were unable to support new business ventures when the industry was at an early stage of development. Considered villains for their lack of support at an early stage in the venture, the same formal venture capital firms could suddenly become heroes if they decided, unexpectedly, to support a new business venture after all. To support this assertion a figure was put forward of how many new business ventures had been supported by formal venture capitalists: fifty-six in all.

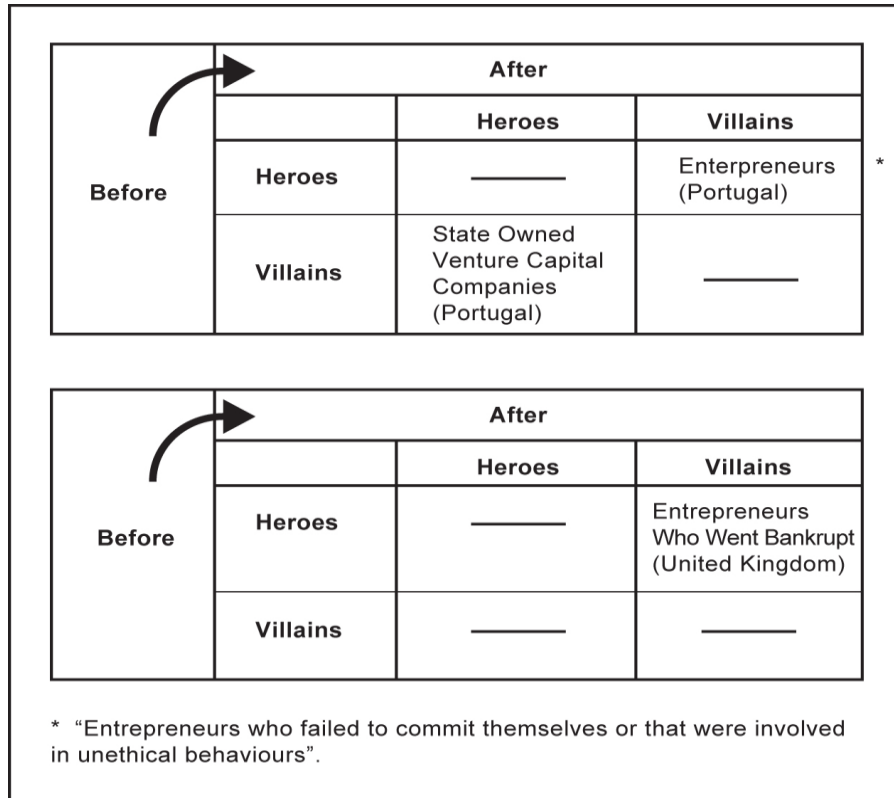


Figure 5: Transformative processes from entrepreneurial villain to entrepreneurial hero (and vice versa) in the United Kingdom and Portugal. Source: the author's own.

9. Conclusion

The research on business angels came about as a confluence of three research areas: entrepreneurship, innovation, and finance. The latter is an area in which I have been working for the last 26 years.⁶⁶

After broadly defining the research topic, business angels, I undertook a literature review, where I came across extensive research on business angels in the United Kingdom, the United States and Scandinavia but was unable to identify research on business angels in Portugal. Having identified a research gap, the hypotheses then gained further impetus and consistency through the remarks from leaders of business angel clubs and networks in Portugal, who, when interviewed, stated that they did not know of any research on business angels in Portugal. This research gap is partially addressed in Document 4 (Gouveia 2009). In fact, this is the first time that the profiles of Portuguese informal investors and their investments has been studied – involving two networks – with the most relevant findings found in section 3.2. (p. 26).⁶⁷ From this research, it emerged that Portuguese business angels do not invest large amounts of financial resources, but prefer to invest in pre-seed or seed phases of projects. Moreover, it was found that their preferred sectors to invest in are tourism, leisure and IT and telecommunications. These findings were presented at the EBES conference in Istanbul in 2011.

This initial research phase presented the option of extending the research area to a more comprehensive investigation involving all business angel clubs in Portugal, similar to research that had been carried out in the United Kingdom since 2009, as mentioned in section 5.2. (p. 40). Unfortunately, however this object was not realised as it was perceived that there was a lack of a broader consensus among the most important Portuguese informal investors.

⁶⁶ As stated at the beginning of Chapter 2 on page 5.

⁶⁷ According to Table 1 on page 13, there are currently eleven business angel clubs in Portugal.

The literature review, summarised in Chapter 5 and 6, and the topics that emerged from this search, detailed in Appendix A (p. 141) culminated in the research conducted in Portugal to address another research gap: how do Portuguese and British business angels construct themselves and, simultaneously, how do they construct their own “out-there”. To address these research topics, nine semi-structured interviews took place in Portugal and the United Kingdom. This element is detailed in the conceptual framework illustrated in Figure 3 (p. 33).

9.1. Findings

The major findings regarding the construct of different “selves” in the respective “out there”, together with a brief overview of the bounding mechanisms used in these interviews, will be summarised in the following sub-sections 9.1.1 to 9.1.3.

9.1.1. The Self

From analysis of the interview transcripts one can conclude that business angels both in Portugal and in the United Kingdom develop concepts of “self” that are linked to their activities as business angels; they all have roles within distinct networks. During this construction process, being “an informal investor” was not the only “self” to emerge; other “self”(s) appeared in addition: entrepreneur, academic, former entrepreneur, academic, incubation-park managers, other supporting entities, and banker, to name but a few. It was found that although each “self”-construction process seemed to be unique, each process of construction of the different “self” was not constructed independently from the construction of the “out there”.

Among the most important similarities to emerge is that both in the United Kingdom and Portugal business angels or informal investors tend to position themselves within the reality they have created, and within which, friends and business partners hold a pivotal role. Among the most significant differences to surface as a result of the

research is the fact that Portuguese business angels focus primarily on their place within the *organisation* (what they do within clubs and networks; where they see themselves as placed among members etc.), whereas in the United Kingdom, informal investors tend to offer a broader perspective of their roles. Informal investors in the United Kingdom, furthermore, spoke more candidly about their failures, which was an attitude that was not mirrored by Portuguese business angels.

9.1.2. The “Out-There”

The process of constructing the “out there” would appear to be inextricably linked to construction of the “self”, as mentioned previously. In fact, in the United Kingdom, the construction of the “out-there” seems to begin as a result of different motivations or objectives, such as model-building, career-change, and innovative segmentation of the market, to name a few. In Portugal, the story is slightly different; organisation, a catalogue of responsibilities, supported by a chronological narrative, was central to all the narratives among leaders of business angel clubs or networks.

The current financial and economic crisis is perceived as a business opportunity both in Portugal and in the United Kingdom, although there are several constraints, the most important of which is the increased risk associated with a depressed market. Having this in mind, one interviewee from the United Kingdom mapped out what in his opinion would be the most interesting business sectors: commodities, agricultural land and technologies.

9.1.3. Linking self and the “out-there”

The construction of “self” and the corresponding “out there” is a unique to the individual, and there are differences associated with the backgrounds of the interviewees depending whether they are from Portugal or the United Kingdom. The construction of “self” was partially constructed against friends and partner(s), and in some cases against the market itself.

Multi-voices in this process were most common in the United Kingdom; among Portuguese business angels the focus was on organisation. As a result of the different emphasis, the identity of the Portuguese business angel networks was more visible in the narratives of Portuguese business angels than they were among the interviews that took place in the United Kingdom.

There is a tendency that where there is a loose construction of “self” there is also a loose construction of the “out-there”; furthermore, the higher the ranking of the interviewee within the network the more palpable is the perception his organizing efforts.

In the previous sections, the results of the analysis of the interview transcripts were discussed so as to properly address the three research questions. The themes discussed below are among those that should be taken into consideration when planning future action in this market. It is not an extensive list of themes, however, as there still remains a number of topics to be addressed.

9.2. Contingent nature of the “out-there”

The construction of the “out-there” is contingent, changeable by nature, and fragile. It is an endless process, supported by a web of meanings, which are always changing. As Tietze et al. noted, “... words and the meaning we attach to them are the fabric of life” (2007: p. 9). Sometimes the changes are substantial, but on other occasions, they are much more subtle. The construction of the “out-there” by business angels requires social interaction. On one side, as Tietze et al. point out “semiologists argue that signs do not derive their meaning in isolation, but through their relationships with other signs in a given sign system (or code)” (2007: p. 23). However, the creation of meaning is essentially relational.

In spite of the fragility of the world’s construction, which is rooted in words and meanings that are socially constructed, there is an ideological element associated with

these linguistic artefacts. Jackson and Carter contend that ideology “is always there and always profoundly influential in actions and behaviour” (2007: p. 157). Although it is problematic to disseminate and implement, an implication of this research is that business angels and other stakeholders in this industry should be aware of the importance of language in the process of mapping the “out-there” and, simultaneously, in the associated sensemaking process. The research appears to support the notion that all interviewees hold an embedded “technical rationality” framework in their minds (Schön 2006).

9.3. Action-oriented and the power to prioritise meaning

One of the main results of this research is that business angels are very “action-oriented”. They are always enacting, either by being involved in deals or by participating in the sourcing and screening processes. This enactment process (Weick 1995) also helps to construct their “out-there”. This construction is referred to as objectivation (Berger and Luckman 1967). All this action is done either directly, or through the club acting as a tool, sometimes at a more informal level and at other times on a more sophisticated level.

The enactment has also a positioning consequence, either towards other subjects, objects, or both. Another relevant fact is the business angels tend to adopt a narrative which has an embedded way of prioritising meaning. This is particularly visible in the narrative produced by the Portuguese business angel leaders (interviewees E, F and G). The bounding process is very heavily based on the construction of models of action such as:

“Entrepreneurs join efforts to support entrepreneurship.”

“A number of projects that needed financing and on the other hand the existence of a number of people wishing to invest. And [importing the] “experience of my foreign partner [name not disclosed]”.

9.4. Ephemeral nature of the “self”

The business angel construction of the “self” is a never-ending process. Watson argued, “It is always emergent; it is part of the continuous process through which we come to terms with our changing world through a process of shaping ‘selves’” (2003: p. 59) Not only is “self” not fixed, as is implied in the previous statement, but there is some sort of a bi–uni–vocal interdependence with the way we map the world: the “out-there”.

Another interesting contribution to practice is how the structure of the “self” impacts on the way the “out-there” is mapped, a linkage that has been detailed in Chapter 8.4.1.

9.5. One individual, different “selves”

It emerged from this research that each individual may have more than one “self”. From the analysis of the narratives produced by business angels, there were segments of narrative that suggested that business angels were at the same time entrepreneurs, experts in certain fields, males, members of certain organisations, and informal investors. At certain times they spoke as a business angel, at other times as the director of a club or as an expert in a certain field. Sometimes the different discourses were mixed. The interviewees happened to mention several social distinct selves: academic, consultant, former entrepreneur, former would-be entrepreneur and leader of informal investors’ networks. Each “self” had a distinct voice. Some were more dominant than others. This is compatible with a vision of the “self” as: “fragmented, distributed, contrary” (Jackson and Carter 2007: p. 190). These characteristics were prevalent in all the interviews, although more visible in those that took place in the United Kingdom. This suggests that the different selves that emerged were more complex than previously anticipated, as is proposed in Chapter 8.4.1.

9.6. Socialisation

Another characteristic, associated with action, has to do with the intense socialisation. These informal investors, both in the United Kingdom and in Portugal, tend to socialise

intensively. They manage a number of risks and need to socialise with their partners, and they interact with other business angels, and eventually, formal venture-capital companies.

During these social processes, which according to Weick (1995) are an occasion for the creation of sensemaking, business angels or informal investors, should be aware of how others construct their own reality. It is crucial to be aware of the importance of the construction of shared meanings, which involve many exchanges. These are also occasions to renew their “self” and through different exchanges, address the mapping or re-mapping of the outside world. In a different analysis, the socialisation helps to build up a bounding mechanism in order to have a consistent narrative.

Therefore, both formal and informal gatherings of business angels, as well as venture pitch sessions, in which entrepreneurs have a limited window of time in which to present their business cases to an audience of informal investors, are shared-meaning occasions.

9.7. Living with contradiction, ambiguity and conflict

The relations between investors and entrepreneurs are not always peaceful. Different actors have distinct objectives, which are sometimes not entirely compatible. This is an industry where males are clearly predominant, both in the United Kingdom and in Portugal. Therefore conflict and aggression might occur. Tannen suggested that “Research on gender and language has consistently found male speakers to be competitive and more likely to engage in conflict” (Wetherell et al. 2007: p. 160). The excerpts from some of the narratives assert this visibly:

“They [the entrepreneurs] have stolen us” (Interviewee G).

“There was a project that did not go ahead due to a lack of commitment of the entrepreneurs.” (Interviewee F).

Maybe investors and entrepreneurs will just have to live with aggression; according to Gabriel “there is considerable evidence that aggression is a gendered phenomenon” (2008: p. 7), and he also points out that human aggression “is highly malleable; it can be contained, controlled unleashed, modified and sublimated.” But he is then fast to point out that “When channelled into competition, it can fuel achievement” (Gabriel 2008: p. 7). Apart from aggression, informal investors have to manage ambiguity. Hatch and Cunliffe argued, “according to Weick, when humans equivocate they multiply perceived possibilities and then enact them as contradictory realities that they use to justify their further equivocation” (2006: p. 89).

10. Future Research

This investigation unveiled research gaps to be addressed using either objectivist ontology or, as an alternative, subjectivist ontology. Under objectivist ontology, the profile of the business angel combined with a better understanding of the nature of their investments, would be elucidated and expand on the research in Document 4. It would also be advantageous to analyse, under objectivist ontology, the impact of the current economic crisis on the informal investment market in Portugal. At another level, it would also be desirable to assess the dynamics of the different clubs by understanding the membership process as well as the leaving process.

Another line of research would be to study the relation between potential and actual business angels. It would be important to study the sourcing processes: meaning the articulated ways in which business angels tend to bring entrepreneurs to present their businesses cases in order to secure finance (equity) to their new business ventures, as well as the screening processes by which business angels analyse the consistency of the business plans before being admitted to the venture pitch. The venture pitch – at the end of the screening process – is an occasion in which entrepreneurs, in a short period of time usually a few minutes, present the most important features of their new business projects to an audience of business angels. As can be seen, there are a number of interesting areas to be researched in Portugal and the United Kingdom. Preferably, this type of research should be conducted on a regular basis in order to plot and assess the evolution taking place.

Using a subjectivist approach, while exploring entrepreneurial finance in a world seemingly dominated by the objectivist ontology, is a new approach. A number of research gaps were identified throughout this journey. The research into the behaviour of business angels both from Portugal and the United Kingdom during the financial crisis is an interesting research topic to be addressed. Another potential research topic, under the same ontology paradigm, would be to assess the self-construction process of

entrepreneurs and how they map informal investors as business partners. Clearly, it would be interesting to investigate whether experienced, as well as inexperienced business angels construct the “out-there” in the same way. This would mean differentiating young from older (or less young) business angels. Finally, it could be advantageous to investigate why former entrepreneurs and/or managers, with both extensive business experience and connections, decide to become business angels.

Furthermore, an investigation could be made into the ethical and moral grounds, as well as into the shame associated with unsuccessful investments made by business angels both in Portugal and in the United Kingdom. The work already done with entrepreneurs could be replicated to apply to business angels (Anderson and Smith 2007; Smith and McElwee 2011).

10.1. Concluding remarks

The starting point of the current research, as expressed in the conceptual framework and implied in the research questions, was to investigate the way in which business angels—both in Portugal and in the United Kingdom—construct “self” as well as how they map their “out-there”. Weick (1995) argued that there was an “in-here” as a prerequisite to the construction of an “out-there”. It may be that it would be possible to identify direct connections between these two constructions.

In conclusion as a result of this research, it is possible to conclude that the initial framework was, inevitably, a simplistic one as emerges from the bottom of Figure 3 (p. 33). Figure 4 (p. 129) shows that the connections were more complex. Starting from a brief definition of “self” and of “out-there”, the process evolved towards a more elaborate mapping of the “out-there”, using linguistic artefacts, metaphors as well as bounding mechanisms. These elaborations of the outside world had an embedded link towards the visible or stated “self”. It was a two-way phenomenon, as there were exchanges in both directions, from the “out-there” to the “in-here”, and vice-versa (though less frequently than the former).

The results of this investigation are compatible with the findings of the existing literature, which agrees that the “self” is somehow linked to the way the outside world is mapped by each different actor, and that each actor has a distinct approach. This investigation was, according to all the available evidence, the first in this field to be carried out in Portugal. The industry is quite recent in Portugal, re-emerging in 2006, following the dot com crisis.⁶⁸ In the United Kingdom, there is an extensive body of research on business angels, grounded on objectivist ontology, and this opened the door to enter into further research focussing on Portuguese business angels.⁶⁹

⁶⁸ See p. 12, note 15.

⁶⁹ A personal reflection on the DBA experience is provided in Document 6 (Gouveia 2012).

11. Ethical Issues

During the design of this research project, it was understood that there would be interaction with people. Ethics in business research is concerned with several topics: “whether there is harm to participants, whether there is a lack of informed consent, whether there is an invasion of privacy, whether deception is involved” (Bryman and Bell 2007: p. 132).

None of the ethical risks mentioned above were present in this research project. Therefore, a number of interviews took place. Some were conducted in the United Kingdom and others in Portugal. In both locations, I informed the interviewees, all of them over 18 years old, about my research project. For those who were invited to participate, and agreed to be interviewed, I asked permission to tape-record the conversation prior to starting it. All of the participants were informed that, if they wished, they could withdraw from the research project without having to explain their motives, and in this circumstance all the information provided by them would be eliminated. The information is anonymous and will remain so after the project ends. They were informed that the tape-recorded material would be destroyed after the completion of the programme.

As part of this research project, a number of questionnaires were sent out to two business angel clubs in Portugal. These paper-based questionnaires were later forwarded to the members of these two clubs with a pre-paid postal response envelope. Before the questionnaires were sent to the clubs, the leaders of these organisations were contacted and gave the project their full support. The answers were anonymous and were treated accordingly.

This research project was approved by the Ethics Committee of the Nottingham Business School. This has two advantages: firstly, “you have benefited from the advice of at least one academic trained to detect any potential flaws in your research”

(Silverman 2010: p. 154) and secondly, “you assure your research participants that your study has been approved by a University and/or medical research ethics committee”

(Silverman 2010: p. 154).

Appendix A

Key Concepts

Concepts that recurred throughout the project are detailed below alphabetically: these are the most significant concepts that emerged from the literature review. Why is this material relevant? Because they were used as topics to be raised during the semi-structured interviews that took place both in Portugal and in the United Kingdom. These were analysed under a defined ontological position to consider how business angels use these linguistic artefacts to make sense of their own self-construction process and as a means for mapping their “out-there”.

Clubs refer to organised business angel groups that can take several forms both in the United Kingdom and in Portugal. Some of the clubs are loose informal organisations while others are centralised more formal organisations with a leader (Mason and Harrison 2010; Mason and Harrison 2011).

Exit: refers to when the business angel sells his or her shareholder stake in the business at a profit (Tashiro 1999; Brettel 2002; Hindle and Lee 2002; Mason and Harrison 2010; Mason and Harrison 2011).

Financial and economic crisis: as caused by changes in the venture capital market. Recession and the difficulties in the banking sector while creating some investment opportunities has also created difficulties due to uncertainty (Mason and Harrison 2010; Mason and Harrison 2011).

Gender: it emerged from the literature review that males are predominant in this type of investing community (Harrison and Mason 2007; Sho1 and Hill, 2007; Wiltbank 2009; Mason and Harrison 2010; Mason and Harrison 2011).

Informal investors⁷⁰ are private wealth individuals, mostly males, willing to invest for a limited period of time in new business ventures. Their explicit aim is to exit these investments with a profit, meaning that the investors aspire at selling for a price higher than they first invested. Exit is understood as meaning the sale of their equity position in the invested company (Wetzel 1987; Freear, Sohl and Wetzel 1994; Duxbury et al. 1996; Mason and Harrison 1996; Mason and Harrison 1999; Steier and Greenwood 1999; Mason and Harrison 2000; Sorheim and Landström 2002; Mannsson and Landström 2005; Sorheim 2005; Mannsson and Landström 2006).

Profile of the investors relates to informal investors' profiles, including among other variables, age, education and income (Hindle and Weban 1999; Tashiro 1999; Brettel 2002; Hindle and Lee 2002) as well as their previous business experience (Reitan and Sorheim 2001).

Reward refers to the returns investors are expecting after exiting the investment they have made in new business ventures, either throughout an Initial Public Offer (IPO),⁷¹ a trade sale⁷² or a Management Buy Out (MBO).⁷³ As mentioned before, exit means selling one's equity position. There projects as well as individuals that fail who are referred to as the "walking-wounded", and a similar term is used both in the UK and in Portugal. However there are an increasing number of new emerging "stars" (real business successes) that provide extensive gains that more than cover other losses,

⁷⁰ Informal investors are also known as business angels. The term business angel or "angel investor" was coined in the early 1990s in relation to extremely wealthy businessmen (not women) who had invested in Broadway productions. Historically, those with enough money to invest in this sort of high-risk businesses venture were difficult to find, so they were considered angels to those who had benefited from their investments. See http://www.ehow.com/about_6591305_definition-angel-investor.html [accessed 4 August 2012].

⁷¹ For more information regarding IPO see:

<http://www.investopedia.com/university/ipo/ipo.asp#axzz22H6lBG8G> [accessed 30 July 2012].

⁷² For more detailed information about trade sales see:

<http://www.investopedia.com/university/ipo/ipo.asp#axzz22H6lBG8G> [accessed 31 July 2012].

⁷³ Brealey and Myers assert about MBO: "Sometimes a company's management bands together to take over all or part of the business and turn it into a private company. Usually management shares the ownership with a small group of outside investors. (...) Thus the managers in such buyouts have all eggs in one corporate basket. On the other hand, they are now working largely for themselves, which provides a wonderful incentive" (1988: p. 816).

either total or partial ones (Lumme and Mason 1996; Harrison and Mason 2000; Mason and Harrison 2002).

Risk and uncertainty are elements that project into the narrative. The narratives produced by the different interviewees tend to mention few alternatives to mitigate risk. Among the most frequent alternatives are diversification of investments and co-investments and also participation in the management team (Harrison and Mason 1992; Mason and Harrison 1996; Gouveia 2007b).

Screening is the process by which the clubs analyse the quality and consistency of the business case presented by entrepreneurs for financing. This process can be done internally but can also be performed by an external entity (out-sourcing).

Sourcing is the process by which business angels promote their willingness to finance new business ventures. In Portugal it takes the form of seminars, conferences, and “road shows”. In the United Kingdom the same happens in parallel. Business angel associations have distribution channels: lawyers and accountants.

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Doctor of Business Administration

A Reflective Journal

Document 6

Supervisors:

Dr. Hafez Abdo

Dr. Jing Wang

Student:

Ricardo Nuno Teixeira de Gouveia
(N0165583)

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1. Introduction

This research, which began a number of years ago, is now coming to an end. It involved many months of work investigating the business angel reality both in the United Kingdom and in Portugal. Business angels can be defined as private wealthy individuals willing to invest financial resources for a limited period of time (Benjamin and Margulis 2005).

A colleague within my group pointed out that that “*This document, [Document 6] is as important as Document 5.*” He later added, “*Ultimately, this is what is going to remain for the future.*” Although not entirely accurate, his remark is significant in that it made me realise that the judgement of this work, in the long term, will be left to posterity. It also clarified for me how the labour involved in the process of collating and assessing information, and the act of constructing every Document, becomes an integration of all these different experiences into what could be called “the learning experience”. In a broader context, and with hindsight, the completion of Documents 1–6 has equipped me with better analytical skills and this is something that will impact on all my future decision-making processes

I have been writing this thesis since 2006, but not on a regular basis. I have experienced many different emotions in this time and I have had numerous ideas and thoughts about what I would write and why. Some of these works were written in periods or occasions of joy, others were produced in exactly the opposite situation (Thompson and Thompson 2008; Moon 2006). There were times when the impulse to write was strong, especially when a train of thought came to fruition. Other days, there was little motivation to write and to persevere was a test of character.

Although the production of this work was based on a series of reflections throughout the course, it should not be seen as a continuous flow. There was a

tendency to write in this Document whenever some kind of insight or understanding occurred to me.

This set of notes was collated and then later structured to produce the present Document. The starting point, detailed in the first section, is the process that led to the decision to further my knowledge. Subsequently, there will be reference to the impact the different Documents have had on my learning experience. The structure of this Document will be as follows: motives behind the decision to apply for a DBA at Nottingham Trent University, my personal learning process, and the impact of this learning experience in my professional life.

Another result of attending the programme was my increasing scepticism about the objectivist approach. While not departing entirely from this ontology, I have increasingly become aware that the concepts of language, identity construction and sensemaking seem more valid to this study.

In constructing Document 6, I was introduced to the many academic theories relevant to the assignment commencing with Lewian's perspective, which, according to Kolb, is where "learning is thus conceived as a four-stage cycle" (Kolb 1984: p. 21). I then explored the theories suggested by Schön and Argyris, in which "when someone is asked how he would behave under certain circumstances, the answer he usually gives is his espoused theory of action for that situation" (1974: p. 6/7). Later on, I happened upon another concept developed by Schön in which "the process spirals through stages of appreciation, action and reappreciation. The unique and uncertain situation comes to be understood through the attempt to change it, and changed through the attempt to understand it." (2006: p. 132) All of these diverse concepts and different approaches have added to my knowledge base and provided interesting insights. They have allowed me to approach the subject matter in new ways, and on several occasions, I have made use of these new skills while sorting out a solution for a client or settling inter-departmental disputes.

Last, but not least, I must thank my supervisors, Dr. Hafez Abdo and Dr. JingWang, for their contributions. They were able, in our many discussions, to

help me develop new ways of assessing problems, and by suggesting alternatives they exposed knowledge gaps and any careless analysis within the research. For example, at the start of the research, I was considering solely studying the Portuguese informal investment industry. However, at one of our meetings Dr Hafez Abdo asked: “*Why not consider a comparative study?*” This new direction caused me to consider which country should be compared with Portugal. I later decided that the United Kingdom would be most suitable as has the biggest business angels market in Europe.

As a research student, I was able to present the research findings at an international conference, Eurasia Business and Economic Society 2011, in Istanbul. This was the first opportunity to present the research and for it to be scrutinised by other researchers. It was also a great opportunity to develop my communication skills. This generated a desire to produce further research and to present the findings in future conferences. My supervisors seemed to share my belief that I could easily do this, which bolstered my self-confidence and gave me the conviction necessary to carry through the work.

As a result of this research, a paper was produced that my two supervisors and I have submitted for publication. The article is now in the process of being peer reviewed; my hope is that it will be accepted although I’m prepared for criticism or even rejection. I see this as an element of the research process and part of the learning curve (Smith 2010). This experience is something I would like to repeat and my supervisors share this ambition. The prospect seems likely that more research will be required in order to further explore the research gaps identified in Document 5 (Gouveia 2012), and I appreciate that other gaps may emerge in the future.

The role of a banker has similarities as well as differences to the role of a researcher. Among the similarities is the need to collect and analyse data, transforming the results of the process into meaningful information. The most striking difference is that bankers are in a business that is oriented toward profits whereas a researcher has a passion for knowledge production.

Being a banker assisted me in my research activities in Portugal, and opened doors that otherwise I believe would have remained firmly closed. I am convinced also that my current professional position was crucial in allowing me to have access to the leaders of the three most relevant angel investor clubs in Portugal.

The DBA significantly improved my research skills. I became a better researcher, which does not mean a good researcher. Most important are the additional research tools I have gained. I value enormously the analytical strengths the subjectivist ontology has provided.

2. Motives to undertake the DBA

Shortly after graduation in 1986, I felt the need to further my studies. On consideration, I felt I should study for an MBA. The only question at the time was whether I should study in Portugal or go abroad. I eventually made the decision to apply for an advanced degree course in the United Kingdom and I completed my MBA in 1999. Schön wrote, “according to the model of Technical Rationality—the view of professional knowledge which has most powerfully shaped both our thinking about professions and the institutional relations of research, education, and practice—professional activity consists in instrumental problem solving made rigorous by the application of scientific theory and technique” (2006: p. 21). My objective at the time, for completing an MBA, was to gain additional methods and techniques that could be useful in my professional life. This way of reasoning was clearly positivist in the sense suggested by Schön (2006).

The DBA process was, at its inception, somehow an extension of this endeavour to gain additional skills. At some point in the course, I remember re-reading documents from my MBA and it was a traumatic experience. I spotted weaknesses in those texts written not so long ago. On examination, I realised that this was because my critical thinking and my analytical skills had consistently improved in the period since starting the DBA.

The requirement to expand my network of contacts, which I welcomed as a consequence of attending the DBA course, was certainly another factor in my attendance in the programme. One could say that an executive programme in a well-known business school would help me in this ambition. Another crucial aspect of attending a programme such as the Nottingham Business School DBA was that in contrast to the MBA where most of my colleagues were from the United Kingdom, the DBA cohort was predominantly from outside the United Kingdom. This gave the group a truly international atmosphere. The outcome of this was not only an increase in contacts but I also had the opportunity to express and share viewpoints with colleagues from other countries. The diversity of nationalities included colleagues from Saudi Arabia, Cyprus, Ireland and Greece, to name but a few, and all with very well defined professional backgrounds.

No less relevant was the desire to prove to myself that I was capable of completing such a demanding programme successfully, whilst also working on a full-time basis.

I think it is important to be honest and say, that aside from a desire to improve my knowledge, the prestige associated with obtaining a Doctorate is also a consideration. I believed too that attending a DBA programme would progress my career. That was, at the time, a plausible assumption. However, the economic circumstances have changed and will have negative impact on my prospects of career development in the short term. Nevertheless, the completion of this programme may well open new opportunities, such as becoming a lecturer and/or a researcher in this field.

Another important aspect that made me apply for the DBA was to look at my career from the outside. By this, I mean, I felt it essential to look at my career in Portugal from a perspective based on the United Kingdom. In Nottingham, the group exchanged experiences, thoughts and perspectives about their respective careers. The purpose of this was to define our own aims and goals.

Unexpectedly this process functioned as an informal way of coaching. This was very useful in constructing my new identity: that of a researcher.

As a whole, the DBA process was truly important to me as it allowed me to explore, in a consistent way, entrepreneurial finance. This is a field where three research areas converge: entrepreneurship, innovation and finance. While business angels are a developed market in the UK, it is still an emerging market in Portugal, which has only very recently shown growth from 2006 onwards.

Apart from this research, but as a consequence of it, I attended several seminars and short-term programmes in finance, global macroeconomics and international relations and geopolitics. This all became part of my personal learning process.

In discussing some of the underlying reasons that made me consider applying for a DBA, it is obvious that these objectives did not all have the same emphasis. Acquiring new skills and abilities was, at the time, the most weighted argument, together with the opportunity to do research in the United Kingdom on a topic that was relevant to me.

3. Route to Nottingham

After taking some time to make the decision to pursue a research degree there was another evaluation I had to make first. Should I follow a DBA programme or, instead, do a PhD? Though having a similar status, the DBA seemed to have a more practical research-based approach, whereas the PhD was considered an alternative route for those wishing to devote themselves to an academic career. Why did a more practical approach seem valid to me? I felt it important to address events that had a direct bearing on my professional life rather than researching about a completely different topic with no connection with my daily life.

There were several schools offering DBA programmes. From the research I made at the time, I found that in the United States of America the DBA

programme tended to be full-time, whereas in Europe, it tended to be part-time. Interestingly, outside of the United Kingdom, there is a limited choice of DBA programmes. I did discover one in The Netherlands.

One may ask why Nottingham Trent University? Why not another university or college? There were several schools offering a similar (or apparently similar) programme. Several criteria were involved in the decision making process: the duration of the programme, compatibility with my office duties, accreditation and overall cost. After analysing the information received from different business schools, the offer provided by Nottingham Business School was amongst the most interesting and it met the criteria that I had previously decided were important.

The next step was to choose the best option amongst all the available business schools. Different (extended) time lengths were available for completion of the DBA from some schools. Others were situated in central locations. Many had programmes that were structured so that they were less accessible to those in full-time work. Before taking the final decision, I thought that it advisable (albeit time consuming and costly) to consider visiting two or three schools that were on the short-list. This came after advice from a school (not NBS) to attend an open day. They explained this would be an opportunity to visit the school and meet the staff.

After considering the different alternatives, I decided to visit Nottingham Business School first and I requested an interview. The process was very straightforward and a meeting with Professor Jim Stewart was immediately scheduled.

The meeting took place in a relaxed atmosphere. I remember experiencing some embarrassment when I was asked specifically about my research topic. Professor Stewart noticed my embarrassment, and he put me at my ease by saying, "*You were not supposed to have a detailed picture of your research topic at this stage.*" After completing the interview, I was invited on a tour of Nottingham Business School, which I found very stimulating. I was relieved by the ease with

which the interview was scheduled and I was pleased with the tour invitation. This was very important as it reassured me that Nottingham Business School was a coherent and viable contender in reviewing my choices.

On my way back to Portugal, I focussed on the application process. I felt encouraged by the way my visit to Nottingham Business School had gone. However, I was still considering another flight to the United Kingdom to visit one or two other schools. This followed a proposition by one of the schools that there was a possibility to appoint a supervisor, who happened to be based in Lisbon. On investigation, the cost of this scheme turned out to be clearly beyond my financial limit. After receiving a positive feedback from my application for the DBA programme at the NBS, and feeling that I was familiar with Nottingham Business School and its staff, I abandoned my plans to visit alternative schools.

What emerges from this story is how my visit to Nottingham, prior to the submission of the application, influenced my choice. Had I not decided to visit Nottingham before submitting the application, the alternatives would have been seriously considered.

The learning experiences throughout the programme will be detailed in the following section.

4. Learning Process

What does the “learning process” mean? Kolb defines it as a “process whereby knowledge is created throughout the transformation of experience” (1984: p. 38). Kolb clearly expresses that learning is in itself a process rather than a final outcome. This is a continuous process anchored on daily experiences. It is a holistic process of adaptation to the world and includes transactions between subjects and the world. Finally, the learning process is a knowledge creation process and is being continually recreated.

What is knowledge? Von Krogh et al argued that, “knowledge is a justified true belief” (2000: p. 6). According to Kolb, knowledge is “the result of the transaction between social knowledge and personal knowledge” (1984: p. 36). This description necessitates an understanding of the two different concepts he mentions. It is important to realise that these different concepts rely on different epistemologies. Knowledge for a positivist “is regarded as an entity/commodity that people possess, but which can exist independently of people in a codifiable form” (Hislop 2005: p. 17). From Hislop’s stance of a practice based perspective, “knowledge isn’t regarded as a discrete entity/object that can be codified and separated from people. Instead, knowledge, or as some of the writers from this perspective prefer, knowing, is inseparable from human activity” (2005: p. 29). This later perspective assumes that tacit and explicit knowledge are inseparable (Hislop 2005: p. 30).

There are evident ontological divergences as to what knowledge really is. My purpose however, is not to discuss this aspect much further. Instead, I am going to analyse the learning process associated with having undertaken this doctoral programme. Nevertheless, it is important throughout this section to bear in mind the different ontological perspectives on knowledge, as they will provide important interpretive keys that will help reading the narrative.

During my undergraduate studies I always applied a positivistic perspective model to the subject matter. Later on, during the MBA (which I completed in 1999), this was still the default position. Even the least numerical of subjects—Human Resource Management—was somehow transformed and the lectures based on numerical grammar. Most of my MBA colleagues were trained engineers who, involuntarily, helped to stress this objectivistic stance as the only existing perspective.

As my background is in finance, I experienced some difficulty in tackling the new concepts to which I was introduced during the course. Concepts such as: narrative, signifier and signified, language, discourse, meaning, sensemaking, deconstruction of the discourse, and texts, to name but a few. But above all, I found it hard to accept that there was any ontology other than objectivism.

Reading and reflection helped me to become more relaxed about working within a subjectivist environment. Eventually, I felt more comfortable with these new concepts and they have helped me to become more flexible in dealing with other situations encountered in work and in life generally. On the other hand, I became more aware of the details and utterances within the narratives produced by others. This meant I then had to make more effort than before to try and identify if there was any subtext within the explicit narrative. I became much more interested in analysing the relations between role and narrative: in the context of making sense of events and people and how we construct frameworks with which to explain our world.

My first difficulty arose during the first seminar, in 2006. How should I construct my research topic? What would be the background and the context? I did not know how much flexibility I was allowed. I had the sensation of being lost in this process. Later, I realised that my colleagues were in a similar position. The discussions within the learning set and the intense exchanges with the other Portuguese members of the cohort were of crucial importance—not only to frame the research topic—but in the structuring of the overall research project.

In Document 1, primarily, I wanted to focus on entrepreneurship (Gouveia 2007). On further consideration though, I thought it would be more important (having a background in finance) to select a topic that would somehow utilise both entrepreneurship and finance. What transpired was a plan to study formal venture capital. Whilst doing research I came across information on the informal venture capital market in the United Kingdom. I immediately realised that I wanted to investigate this subject matter further. However, I didn't know whether I should just study the Portuguese market or other markets. After advice from my supervisor, Dr. Hafez Abdo, I decided to compare the Portuguese market with that of the UK. I suggested the UK because from my research I believed it was the most developed market in Europe

In Document 2, the research process itself became much more interesting and thought provoking (Gouveia 2007). It had several phases. The first was the

unearthing of material from a variety of sources. At that stage, I was involved in what could be called a four-stage process: “An integrated process that begins with here-and-now experience followed by collection of data and observations about that experience. The data are then analysed and the conclusions of this analysis are fed back to the actors in the experience for their use in the modification of their behaviour and choice of new experiences” (Kolb 1984, p.21).

In comparison to the UK, I soon became aware that there was an extensive research gap in the area concerning business angels in Portugal. This was the major research result of Document 2 (Gouveia 2007). It also brought to light that most of the literature produced used objectivist ontology. It was clear that there was little, if any, research about business angels using subjectivist ontology. This research gap was addressed in Document 3 (Gouveia 2010) and Document 5 (Gouveia 2012). Document 4 addresses the research evidence found in Document 2 (Gouveia 2007).

At this point, there were lively discussions in our study set. We used to meet the day before the scheduled workshop, and discuss ontological as well as epistemological perspectives. This discussion was crucial. As Weick pointed out, “How can I know what I think until I see what I say” (1995: p. 61). The discussions within the set developed and matured as we became more comfortable with each other. The fruit of these debates were very useful when constructing Document 3 (Gouveia 2010).

As a result of these discussions, I realised everyone had several identities according to the different roles they were performing. I, for instance, moved between the roles of the professional, the father, the researcher and a cohort colleague. These different roles triggered the capacity to develop new discourses. I became conscious that it was important to interlink the different discourses and the different roles and selves. Schön (2006) talks about the capacity we have of “cross fertilization”.

The preparation of Document 4 (Gouveia 2009) posed a different challenge, as it was a quantitative exercise. While reviewing the statistical techniques, I came across new ones, which added to my learning experience. I also had to learn to integrate the research questions, the research methods and choose the sample in a coherent way. An additional and absorbing assignment was the construction of the questionnaire. This task had the active participation of my supervisors. At this stage, the discussions within the group were focused more on the methods being used in this quantitative Document, and less on the nature of different ontological approaches. At this point themes such as comparability and reliability surfaced and were heavily debated.

What emerged from these group discussions was the question as to how one should integrate into Document 5 (Gouveia 2012), the interpretive approach of Document 3, with the positivist stance taken in Document 4 (Gouveia 2009). This issue raised the question of consistency. The significance of this became a priority on the agenda of the researchers. My solution to this was to use the data obtained from the questionnaires in the topics that were raised during the semi-structured interviews. The questionnaires were sent to business angels from two different Portuguese business angels clubs. The findings from this research were used as raw material that was then embedded into the topics that were used later in the interviews.

4.1. Difficulties of research

Following completion of the literature review, I began looking into how I might gain access to business angels in Portugal. I did not have any contacts at the time among business angels, although I did have contacts among Portuguese formal venture capital companies, but no more than that. In fact, surprisingly, I found that from the beginning, it was easy to gain access to Portuguese business angels or informal investors because I discovered that within my existing network there were colleagues who already had regular contact with leaders of two of Portugal's most popular business angel clubs. These colleagues offered to help me establish initial contact with the two business angel leaders. I then contacted each of them directly to arrange a convenient time to interview them. It was a straightforward process.

Following this first iteration, one of the first two contacts agreed to introduce me to two other business-angel club leaders. I aimed to talk to both of these individuals, but then one declined my invitation to be interviewed for Document 3 (Gouveia 2010). The other club leader accepted my invitation to be interviewed, but did not agree to participate in the research.

Fortunately, despite the hurdles, I managed to gain access to three out of the four most important business-angel club leaders in Portugal. It was essential to have in-depth interviews among at least four Portuguese business angel leaders in order to get an overview of the business angel industry in Portugal. I also managed to persuade two business-angel club leaders to participate in a survey.

One major difficulty was gaining access to business angels in the United Kingdom. I sent out many emails, but received only a few answers. All those who replied I interviewed. I managed to get access to four senior figures within different networks, all of whom had extensive experience in the industry. One of them I had met in Lisbon at a venture capital conference. At that same conference I met a British journalist whom I later contacted, but from whom I did not get a response.

Among the potential interviewees in United Kingdom, I asked them whether they would kindly forward my email address to their list of contacts. Some agreed, but despite their cooperation, I was not successful in making any further contacts among the business angel fraternity in the United Kingdom.

In spite of the difficulties I encountered, three of the four leaders of Portugal's most representative clubs agreed to participate. In the United Kingdom I managed to interview four experienced business angels with managerial responsibilities in business angel clubs or networks, and also in other organizations, including incubation parks, supporting networks, and universities.

4.2. Expansion of my networks of contacts and consequences

The research into business angels has encouraged me to expand my contacts within the informal investment community in Portugal and in the United Kingdom. I participated in seminars and conferences that took place in Portugal, and over the past few years, have come to learn about the various events that the business angel community in Portugal attends, participates in, and organises.

In addition, as a result of new contacts within the industry, I invested a small stake in a venture capital fund linked to a well-known Portuguese business school, which is aimed at financing business plans developed by their own MBA students. This fund has supported a small number of new business ventures in Portugal. I also participated in a session aimed at supporting business ventures developed by managers (with forty or more years' business experience) who currently find themselves unemployed. The Fund is supported by Portuguese banks (although not the one I work for) and other visible Portuguese companies. This initiative is really beginning to take off; its efforts to provide opportunities towards social entrepreneurship are beginning to show results.

I have also been involved in a project to create a new informal investment club in Madeira Island, which is my professional and personal base.

In the United Kingdom, I have connected with the BBAA group through the LinkedIn network and other venture-capital-focused groups. I am also in contact with journalists who specialise in news analysis of the informal investment industry in the United Kingdom, who periodically send me updated information regarding developments occurring in the venture capital and informal investor markets.

4.3. Contribution to practice

The research has provided me the opportunity to gain valuable experience in working under the different ontologies of objectivism and subjectivism. Moreover, when working on Document 5 (Gouveia 2012), I tackled some ontological inconsistencies in what was a very stimulating exercise.

Throughout the DBA my presentation skills have improved, which proved to be an important learning outcome during the recent EBES conference when I presented the findings of my research. In addition, I have written a paper based on the findings of the current research (together with my supervisors) that is now being peer reviewed for publication.

Apart from these important aspects of my growth both professionally and academically, I now have a greater understanding of the business angel market and what drives it; I have become more aware of the dynamisms of the informal investment community in Portugal and in the United Kingdom. In addition, I have been given the opportunity to take an alternative perspective as one of the protagonists of the market, having participated albeit with a minor stake, in a Portuguese venture capital fund as mentioned in the preceding section.

Currently I have access to four of the most relevant players in the business angel industry in Portugal. Why is it important to state this fact? I mention it because not only do these individuals manage the oldest and most dynamic organisations in terms of initiatives in Portugal, but they also oversee clubs/networks with significant member numbers, comparable to some of the most dynamic clubs I know of internationally. I will certainly continue to nurture these links within the industry. I see these contacts as important assets in my plan for the future to build on cross-nationality networking within the industry.

Another outcome of the DBA is that I am more aware of what actions governments (both in Portugal and the UK) might take in response to the current economic climate and the global economy. It seems to me that government has a responsibility in adverse economic environments to stimulate entrepreneurship. I see that there might be an opportunity to stimulate collaboration between entrepreneurs, policy makers, venture capital players (both formal and informal) and banks, in order that new business ventures aimed at developing value-added activities, promoting employment and fostering exports, are supported. In the ramshackle Portuguese economy and the increasingly chaotic UK economy, surely

the success of entrepreneurs and the networks that support and inspire them are of crucial importance.

Among the business angel contacts I have made in the United Kingdom, I have worked hard to secure their continued interest in my research and future plans; I believe they will be of crucial importance in my plans to build cross-border investment networks in the future.

5. Professional Development

I believe that the theory and methods I have learned about and practised throughout the DBA will be extremely useful in my professional life in the future. The DBA has taught me to critically assess the documents, reports and other material I was working on, providing me with the tools to critically evaluate the consistency of the arguments embedded in the narratives. Preparing the different Documents, which then were to be discussed with my supervisors, gave me the experience and additional skills to critically evaluate reports which I received in a professional capacity. Moreover, my set—the League of Nations—allowed me to defend my work and my conjectures regarding the chosen ontology and epistemology. Further, it helped me to assess and critically evaluate the works presented by my peers and to suggest alternative courses of action. This interaction with supervisors and colleagues was extremely useful: it enabled me to recognise the growth potential of informal investment (business angel investments) in Portugal. More importantly, it taught me to assess whether it might be important as a business “niche” in banking. Additionally, it allowed me to compare the evolution of the Portuguese business angel activities with the existing reality in the United Kingdom.

This DBA “route” allowed me to further elaborate on the identity construction of myself and others, among whom were both colleagues and clients. It also led me to reflect on my reactions to different situations with regard to my own identity construction.

It would be difficult to be unaware of the fact that prevailing narratives are a changing phenomenon. In fact, the financial crisis that struck the world seems to have induced an accelerated change in the prevailing narrative within the banking industry in Portugal also. Before the crisis, there was a discourse rooted on risk-taking grammar. An interesting example was a comment I heard during a meeting in the bank: “*This guy [the speaker at that moment] used to say exactly the opposite two years ago.*” This remark reveals the importance of context. During the period before the financial crisis, the rhetoric was risk eager. One or two years later, and the discourse was rooted in risk avoidance.

Professionally, I was aware of the fact that each person – whether they are a client, a supplier, or a colleague – creates meaningful connections in particular ways. Ways that help to structure the world and give meaning to it. If we take it that this is true for individuals, then it follows that it is also true for the departments within an organisation. To understand the way people structure their own world was an important revelation that helped me, especially when leading meetings. Being able to use this system in various interview situations has been excellent practice for the application of these methods in my professional life. Analysing the diverse discourses on different subjects and seeing how people structure their “self” helps me better to understand their concept of the world.

A pervasive theme that emerged from this research is one of power. What is power? Jackson and Carter argued, “It is not possible to understand knowledge about anything unless the power base to which it is linked is also understood.” (2007: p. 107) This requires that people must be immersed within a certain discourse to exercise power. Jackson and Carter added to this view by contending “people who exercise power in a discourse are not doing so because the knowledge is absolutely correct, but because it conforms to the assumptions of that discourse” (2007: p. 107). This alternative view of power has been useful to me on a daily basis.

6. Concluding Remarks

The process of creating the six different Documents (Gouveia 2007–12) of the DBA delivered moments of revelation—even elation. Equally, there were times when it was an ordeal. However, the outcome was both a thought-provoking research project and a valuable learning process.

The visible part of Portugal’s business angel community is still evolving after a period of lethargy. From 2000 onwards, when the “dot com” crisis took place, to 2006 there was little progress. This is the first research to have analysed the business angel phenomena in Portugal.

The DBA also incorporated the study and practice of sensemaking and its relation with the individual identity-construction process. Weick, while elaborating on the distinction between sensemaking and interpretation wrote, “sensemaking is about the ways people generate what they interpret” (1995: p. 13). The same author suggests that identity construction is somehow related to the sensemaking process. “Whenever I define self, I define ‘it’ but to define ‘it’ is also to define self. Once I know who I am then I know what is out there.” (1995: p. 20) Jackson and Carter defined “self” as “how we understand ourselves and others as individuals” (2007: p. 299). Why was this important to me? Because in essence, I began to exercise much more critical attention to the narrative individuals had been producing. I then tried to extrapolate, from their narratives, the authors’ identity construction. This framework was important in analysing how informal investors constructed their own selves and how this linguistic apparatus impacted on the social construction of the Portuguese business angel industry.

Another significant aspect emerged during this research: I became aware of the importance of language in structuring and framing social realities. This became particularly relevant when, because of the financial crisis and under increasing pressure from shareholders, the organisation within which I had been working for the last few years announced a complete change of the board. In the

hierarchy below board-level this initiated a new discourse and an immediate redefinition of their own identities and of the prevailing narrative.

This research project represented new opportunities to gain research skills. It also helped me to develop a whole, new area of knowledge: interpretative analysis. I was unaware of these techniques until I attended Nottingham Business School. These new practices were truly an epiphany. They helped me to understand how unstable and ambivalent meaning can be. It helped me consider the fragility and ephemeral nature of the social construct of reality: a reality that it is constantly evolving in a never-ending process.

Producing Document 4 (Gouveia 2009) was fundamentally important to me as I acquired the very valuable additional skills in designing research methods to answer specific research questions. This was performed within objectivist ontology. It was also an opportunity to review and update my statistical techniques while applying them in practice. A key aspect of this was the construction of a correct linkage between research goals, research questions and research methods under objectivist ontology.

The learning process is a personal experience and happens at various levels. In my case, this commenced with the construction of the outline of the thesis. These different parts were considered as distinct loops and had the full approval of my supervisors.

In conclusion, Document 6 is both a reflection and an exercise in organising methodically the actions I took throughout the project and why. In addition, it is an attempt to reflect on what I might do in future projects based on the experiences gained in this one.

I must thank Schön (2006) for his many texts in which he asks questions while simultaneously searching for new sources to address and solve the problems. I have used his methods on several levels: academically, professionally and in my family life.

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